

**GENERATIONS WORKING TOGETHER:
FINANCIAL LITERACY AND
SOCIAL SECURITY REFORM**

HEARING
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
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GENERATIONS WORKING TOGETHER: FINANCIAL LITERACY AND SOCIAL SECURITY REFORM

Wednesday, April 20, 2005

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to call, at 10:05 a.m., in Room 2128, Rayburn House Office Building, Hon. Michael G. Oxley [chairman of the committee] Presiding.

Present: Representatives Oxley, Baker, Bachus, Castle, Lucas, Gillmor, Ryun, LaTourette, Jones, Biggert, Miller of California, Tiberi, Kennedy, Feeney, Hensarling, Garrett of New Jersey, Brown-Waite, Barrett of South Carolina, Harris, Renzi, Gerlach, Pearce, Neugebauer, Price of Georgia, Fitzpatrick, Davis of Kentucky, McHenry, Frank, Kanjorski, Maloney, Sherman, Lee, Moore of Kansas, Capuano, Clay, McCarthy, Matheson, Miller of North Carolina, Scott, Green, Cleaver, Bean, Wasserman Schultz, and Moore of Wisconsin.

The CHAIRMAN. The committee will come to order.

Pursuant to the notice previously given, the Chair announces he will limit recognition for opening statements to the Chair and Ranking Member of the full committee. Prepared statements of all the Members will be included in the record.

The Chair will now recognize himself for an opening statement.

Our hearing today begins our committee's discussion on Social Security reform, initially focusing on the intersection with financial literacy. I want to welcome all of our witnesses today. We have before us a panel of distinguished former Members, and we look forward to their insights as we begin the committee's initiative in this area.

Senator Simpson, Representative Penny and Representative Kennelly, welcome to the Financial Services Committee. It is good to see all of you again.

And later, on Panel II, we will hear from financial literacy professionals who will share with us their perspectives on this topic.

If we want Social Security to successfully provide for future generations, the program must be reformed. The program would continue just as it is now for current seniors and Social Security recipients, but their children and grandchildren surely will benefit if we move forward with a permanent fix. If changes are not made in the future, Social Security will not be there in its current form for today's young people. I am looking forward to working with the

members of this committee on a bipartisan basis as we move ahead in this great and important debate.

Social Security was created in a different America. In 1950, there were 16 workers for every retiree. Today, there are just over three workers for every retiree; and when the baby boom generation retires, there will be only two workers for every retiree. It is time to face these facts, and President Bush has been courageous in doing just that.

Without reform, Social Security will become social insecurity in the future. Waiting is not an option, and Band-Aid reforms will not solve the structural problems. The longer we put off structural reform of Social Security, the more expensive it will be to fix. That is why we must act now. Waiting will cost us an additional \$600 billion per year.

As the Nation discusses Social Security reform, individual Americans are also thinking about their retirement security. I think we can all agree that we should continue to emphasize financial literacy. To succeed financially, to make the most of their money, our citizens must be prepared to manage their finances and attend to their savings and investment decisions. People need information on saving and investing. They need to know about the benefits of compound interests, dollar cost averaging, and diversifying their investments.

Americans are successfully accomplishing financial goals, raising children—which everybody knows is an expensive proposition—financing college educations, purchasing homes and eventually paying off mortgages, as well as financing retirement, but we need to bring along those who have not made as much progress and encourage everyone to maximize their money's potential.

This committee has been working hard to promote financial literacy since 2001. We worked with the Department of the Treasury in the creation of the Office of Financial Education, which promotes access to financial education tools that encourage personal financial management, planning and savings. We also worked together on title 5 of the Fact Act, establishing a Financial Literacy and Education Commission with the purpose of improving financial literacy and promoting financial knowledge for all Americans.

We need to continue to build a financial literacy foundation and incorporate financial literacy into the lives of our citizens. This committee needs to work in bipartisan fashion to help people take control of their financial future and to help the Nation take control of its future.

One of the most important principles of financial literacy is to review the situation, make what are sometimes hard choices because you know that is the best thing for the future. That is also what we need to do as a Nation.

Personal accounts are an important part of the answer. It is not fair that people pay into the system their whole lives but yet have nothing to call their own. Instead of banking on government promises and IOUs, Americans should have the option of voluntarily counting on their own investment returns in addition to their traditional Social Security system. If they choose to participate, younger workers will own the money in their accounts. They will be able to watch it grow, and Congress can't spend it. People will be able

to build their own personal nest egg within the Social Security program, and that will give people a better chance to enjoy a more secure retirement.

Americans have always wanted to live their own lives and direct their own affairs. When given the choice between renting a home and owning, the American dream is to call something our own. I think the same desire is there for owning retirement security, and I look forward to the debate.

I now yield the floor to the gentleman from Massachusetts, our Ranking Member, Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman.

It is nice to see this panel of, as you said, distinguished former Members, which is better, I guess, than being a former distinguished Member, some of which we have from time to time accumulated.

I agree that there is a crisis, but I think it is one that the President has brought on by his really quite disappointing reluctance to allow Social Security to spend the money that was paid into Social Security.

As I look at this, I have really been shocked to see the President first denigrating the value of pledges made by the United States to pay back money it has borrowed. I don't think that is a good idea in general but particularly with regard to Social Security.

It is true if you look many decades out, we will reach a point where Social Security will have a shortfall. But let's be very clear, if Social Security is credited with every dollar that was paid in under the rubric of Social Security and the interest that was legally supposed to accrue to that, it has enough money to get to about 2040 or 2042. Until 2018, it will continue to take in, in fact, more money than it pays out.

The problem is that the President of the United States—and apparently his allies—don't want Social Security to be able to spend the money that was paid in for Social Security. That is the sole crisis that we have in the near term.

Here is what the President has said, "We don't have a trust in Social Security"—I think he means a trust fund. "what happens is we take your money, we pay money out for the promises for those people who have retired, and if we have got anything left over, we spend it on things other than Social Security."

Well, Mr. President, it wasn't left over. It was supposed to be set aside for Social Security. And if you would simply honor these promises and stop treating people's Social Security money as left-overs, then we wouldn't have this near-term crisis. That doesn't mean we shouldn't look at it longer term. But, again, we should be very clear, if the Social Security system is credited with every penny that was paid in for Social Security, it is not a shortfall in the near term.

And then the President said, "There is no trust fund in West Virginia, just IOUs that I saw firsthand that future generations will pay."

Well, that is true. When you borrow money from people, you pay it back. That has generally been regarded to be a terrible thing. This is money that was paid in. These were not loans that were made promiscuously. This was money that was paid into the Social

Security system that the President said he considered to be left-overs and spent.

And he said future generations will pay either in higher taxes or reduced benefits or cuts to other critical government programs. But, again, I want to stress we are talking here about money that was paid in as Social Security money. So let's separate out the problem.

People have said, what is your proposal? I will tell you mine. Put the money back. Stop treating money that was paid into under the solemn promise that it would go for Social Security as if it was somehow something left over. Put it back and let them have it. Then as we pay that out over the coming decades, yes, some adjustments will have to be made, but let's not artificially manufacture a crisis because we are reluctant, resistant to allowing the Social Security system to be credited with the money that was paid in.

I now yield the remaining time to the Ranking Member of the Capital Market Subcommittee.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Mr. Chairman, thank you for convening the hearings. I represent one of the oldest congressional districts in the country, so I am awfully familiar with how important Social Security is.

I think that when we look at Social Security we have to recognize that, without that program today, instead of a poverty rate among elderly of only 10 percent it will be nearly 50 percent. Unlike other benefits, pension benefits, we depend on the sponsoring employer to survive. Unlike private savings, we don't know what will happen with the rise and fall of the stock market or economic forces, but Social Security is the one guaranteed minimum benefit for elderly Americans.

President Roosevelt talked about it as a third leg of the stool. I agree. I hope that the conversations that the President has exacted will cause people to re-examine their retirement planning in the future.

We have, it seems to me, two challenges. The most important challenge, as I see it, is not raising the caps, adding additional money or doing anything else but, consistent with my colleague, Mr. Frank, is we have got to figure out a method to put—create an entity in which Social Security funds can be invested and not diverted, as in our current practice, to fund general government operations. We are lying to the American people and taking money out of Social Security and we are applying it to general government operations.

Then the second problem is a long-term solvency problem of Social Security, and we can only attend to that if we develop the entity which will protect the funds that will be raised in the near term to meet the shortfall of the boom generation.

I oppose the private accounts. I think it is a red herring. It would drive the national debt up over 20 years more than \$5 trillion. Actually, I think the President would be quite a magician if he could convince the Chinese and the Japanese to fund the retirement program of United States to the tune of \$5 trillion. Maybe we ought to take him up on it, because, as the old adage goes, if you owe a little bit to the bank, the bank owns you; if you owe an awful lot to the Chinese, the Chinese will own you—or you will own the

Chinese. And maybe if we can scam them into giving us that \$5 trillion it wouldn't be bad because they could be less belligerent in the future.

Anyway, I think the entity we construct has to be something that the Congress has not examined—the President has not examined. It is the element that is absolutely necessary before we start our correction of Social Security and our plan for solvency, and we have to do it in such a way that it doesn't have a detrimental consequence to our national capital markets.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired, and we now turn to our distinguished panel of former Members.

We will begin with the gentleman from Wyoming, Senator Simpson. It is good to have you here today, and we welcome your participation.

**STATEMENT OF HON. ALAN SIMPSON, FORMER
REPRESENTATIVE FROM THE STATE OF WYOMING**

Mr. SIMPSON. Thank you, Mr. Chairman and Ranking Member Barney Frank and colleagues Tim and Barbara.

While I recall working with both of you during my Senate years, I miss the people, but I don't miss the work. I could tell it was time to move on in '96. A guy got up at a town meeting and he cried, two terms for you guys, one in Congress and one in prison. Well, that will take a lot out of a town meeting, I will tell you that. So I moved on. But I have been grappling with this issue, and you were nice to give us the opportunity to speak.

When I retired from the Senate, I spent a lot of time on Social Security. I chaired the subcommittee in the Senate. When I left, there was a huge problem unresolved, and now that I am here today the huge problem is still unresolved. Everybody talks a good game, but nobody puts anything on the table so they won't get ripped apart.

Well, Senator Moynihan had the guts to step up in '83, a great and dear friend of mine. He had the guts to do something, and it is time to do that.

It is a tremendous problem. The problem remains.

I served on the bipartisan commission that was chaired by Bob Kerrey and Jack Danforth. It truly was bipartisan. We put together a chart that was aptly entitled, Current Trends are Not Sustainable. It showed how, left to its own devices, the Federal entitlement programs—the word entitlement is killing us because it means all you have to do is get to a certain age and, regardless of your net worth or your income, you are entitled to bucks from the Federal government. It makes no sense. I always said we should begin to affluence-test the benefits, which of course caused seizures among certain groups in the city—choking, collapsing, gasping.

So here we are. It doesn't matter who is in power. We have gone from a Democrat president, to Republican, Democratic control, to Republican control. If you use the same chart today, the same numbers would change, the dates would change, but the basic picture would remain the same.

Serving on that commission was an interesting experience, I learned a lot. One thing I learned—really learned, that if you are

going to wait for the interest groups that lobby on these programs and work their members into an absolute froth to honestly and without demagoguery step forward with constructive solutions, you are going to have a very long wait. We had them all in before the Entitlement Commission, not just the AARP or Barbara's group for seniors. We had them all in, silver-haired legislators, gray panthers, pink panthers, all of them.

I even held a hearing on the AARP. They were not pleased at all. It was a wonderful thing, though. I enjoyed it thoroughly. Because the AARP is 38 million Americans bound together by a common love of airline discounts and RV discounts and selling mutual fund stuff. They are a huge business, huge business.

And somebody said, but look at the help they gave on prescription drugs; and I said, why not, they are the biggest pharmacy of America. So they don't do anything that would injure one of their businesses. Barbara is a little better about all of this. But whatever you are hearing from them, just try to ignore it. Thirty-eight million members, 10 bucks dues.

And go find out what is in the Andrus Foundation. You can't crack that huge shell. There is a huge foundation—they just slop money over there—in there called the Andrus Foundation. If you want to get into something, I recommend you try that.

Anyway, enough of that.

In the Committee for Preservation of Social Security and Medicare, under Barbara's predecessor, the issue was the notch baby—thank heaven when she came, or toward the end, they gave that up. I said, the next hearing I go to or town hearing they talk about a notch baby I am going to put a notch in the head of the person that is asking. It was the phoniest thing that ever came up. You had to stabilize the situation, and they picked a date of 1926 or 1922.

Well, I see time is only 5 minutes here. You have got—

Here is what Moynihan said, and this goes to my friend Barney. We worked together on a lot of stuff, immigration, and no one I regard higher. We enjoyed it.

The Social Security—this is Moynihan speaking—there is nothing there. It is all a series of IOUs. And the reason it is there that way is because Franklin Delano Roosevelt, in the original plan, said—and it is in the statute—the surpluses of Social Security shall be used by the Federal government backed by the full faith and credit of the United States.

Every time somebody this age puts something in today it goes out tomorrow, to me, and I get 2,000 bucks a month. And guess what? Everybody my age, in their most productive years, never put in over 874 bucks a year. Ladies and gentlemen, nobody my age, in my most productive years, practicing law in Cody, Wyoming, '60, '70, early '80s, ever put in more than 874 bucks a year.

Does anybody ever listen to this stuff? If you retired in the late '80s, you got all of yours back in the first 3 years. It is almost dream world. There were 16 people paying in when I was a freshman at the university—and 3.82 was my blood alcohol level at that time rather than a grade average. But now there are three people paying in, three, and one taking out; in just a few years, two pay-

ing in. Who is going to sit still to pay me 25 grand a year while they are putting in 12.5 each? Makes no sense, absolutely no sense.

So then Bob Kerrey and I got into personal investment accounts. We put in a bill—the Democrat from Nebraska. We said, let's take—instead of putting 6.2 in, put 5.2 in and take 1 percent and put it into a personal investment plan. That was a good bipartisan approach. We didn't get it done, but we sure got people to consider it.

But consider this—and then I will answer any questions—personal, private, whatever, the highest-wage earners, the very top of the income scale are being promised benefits under the current system in 2050 that are 40 percent higher than the highest wage earners receive today, and that is after adjusting for inflation. Absolutely absurd.

And I can only tell you this—and if I hear it again, and I know I will, I will hear it right here today—no one over 55 is going to lose a nickel under any plan I have ever heard because they don't dare do it—their homes will be bombed. So 55 or over, you are off the hook. Now let's do something for those 55 and under. And if you don't start now it won't get done.

Thank you very much.

The CHAIRMAN. Thank you, Senator and thank you for your service to the country.

[The prepared statement of Hon. Alan Simpson can be found on page 113 in the appendix.]

The CHAIRMAN. Barbara Kennelly, of course a distinguished member of the Ways and Means Committee, and we appreciate your being with us today.

STATEMENT OF HON. BARBARA KENNELLY, PRESIDENT, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

Ms. KENNELLY. Thank you, Chairman Oxley and thank you, Barney Frank, Congressman, and thank you other members. I am just delighted to be here to discuss financial literacy.

I am the President of the National Committee to Preserve Social Security and Medicare. We have 4 million members and supporters, and we really believe that Social Security is a good system, and we don't want to dismantle it.

We understand that 47 million Americans, 1.4 families in the United States of America, get Social Security; 12 million Americans are kept out of poverty because of Social Security. Social Security is a sound basic income, and it is adjusted for inflation, and it lasts as long as you live.

Older Americans understand this. As I said, I am president of a 4.3 million organization, and I deal with seniors all the time. And they understand that life is such that you know you have to take care of your families, you have to buy your home, you have to educate your children. And, you know, life is the way it is, and sometimes things don't work out so well. So approving financial security is so important, and I thank you, Chairman Oxley, for having this meeting.

The hazards and vicissitudes of life are unknown. Now I know that we have overemphasized Enron, and Enron happened. And

people from Enron, when they lost everything, they either said, oh, my God, all I have is Social Security, or I have Social Security.

I just want to tell you about one member of my association. Her name is Mary Vogel. Mary Vogel is 76 years old. She worked all her life. She worked 35 years in the airlines industry. She thought she had done everything well. She thought she had been prudent about life. But you know what? After she retired, her whole situation changed. Her industry went bankrupt. She lost her life insurance, her health insurance went up, and so, as a result, guess what? All she had was Social Security.

So I sit here today and I have to say to you—and I know the senator well. I know him well. He and I have argued over the years, but, unfortunately, I have to say to you that privatizing Social Security would not increase retirement risk. It would only cut Social Security benefits, increase Federal borrowing, and further weaken Social Security status. No matter what you believe about the financial status of the current system, you need to bear in mind that the private accounts make the situation worse. The President himself has said that private accounts don't improve solvency one thin dime.

What many people don't realize is that by diverting payroll taxes out of Social Security the accounts actually accelerate insolvency. This means that everything will be bigger. The cuts will be bigger, the borrowing will be bigger, and we will have a bigger problem in these United States. The costs will fall on every American taxpayer for generations to come.

Some call this borrowing transition costs. Transition costs sounds like something small. Transition costs are something big. My 3-year-old granddaughters, they will be paying this into their midlife.

Here is what this whole financial risk literacy comes into play. By design, privatization with retirement income based on market risk, income dependent on your financial intelligence and your personal luck. Remember Mary Vogel. Remember what happened to her.

I look at you—and I sat up there. I sat up there like you sat there. And you know, I can remember I had a young woman, a very bright young woman, as all of you have on your staff. This young woman said to me, when 401(k)s were coming in, she said, you know what? Those 401(k)s are going to totally replace defined benefit plans, and she was so right.

And I say to you, Chairman Oxley, have intelligence and have education about financial retirement. Have it. Tell people that they have to pay into their financial 401(k)s. You know, most people don't. A lot of people, we all say, oh, everybody has one, but guess what? They don't pay the whole amount they should pay.

And I ask you, Chairman, make sure you have this education, but I tell you, you should not replace this by Social Security. We need Social Security in this country. It is a very moderate program, very moderate program compared to other countries. But what we have is, since 1960—since 1960, we have gone from 35 percent of poverty to 10 percent poverty. This is not a generational war. What this means is older people are protected. Now we have to protect middle-income people. And I ask you and I tell you, what you are

doing today is the absolute right thing, but please don't dismantle Social Security in the name of education.

The CHAIRMAN. Thank you, Barbara; and, again, thank you for your service to the country.

[The prepared statement of Hon. Barbara Kennelly can be found on page 89 in the appendix.]

The CHAIRMAN. Our next witness is Tim Penny, former—a distinguished member of the Budget Committee from Minnesota. It is good to have you back on the Hill, and you may proceed.

**STATEMENT OF HON. TIM PENNY, FORMER REPRESENTATIVE
FROM THE STATE OF MINNESOTA**

Mr. PENNY. Thank you, Mr. Chairman and members of the committee.

I want to start by sharing a quote from former New York senator, Daniel Patrick Moynihan, who co-chaired the President's Bipartisan Social Security Commission on which I also served. Senator Moynihan said, "You are entitled to your own opinion, but you are not entitled to your own facts." That was his admonition to us at the very start of our commission's work. So we proceeded to focus on the facts, and that then led us to reach consensus on a variety of recommendations.

The facts about Social Security are not hard to find. All you have to do is look to a variety of respected and reputable government agencies to find that they are in essential agreement on the basic facts. Whether it is the Government Accountability Office or the Congressional Budget Office or the Social Security Trustees, every report they issue—and we had a recent report from the Trustees just 2 weeks ago that reaffirmed these same conclusions, and they are these: By the year 2017 or 2018, annual payroll tax revenues will not fully cover the benefits, so that is when we begin a cash flow concern within the system. If no new revenue is injected into the system, recipients could see benefit cuts over time that might total as much as one-third of the money that they would otherwise expect from the system. That is because of this cash flow crunch.

And even if you count the trust fund, we do reach a point around the year 2040 or 2042 where the revenues will be insufficient, and benefits could be—a third of those benefits, roughly 25 to 30 percent, could be at risk.

If we resort simply to payroll tax hikes beginning in 2017, to begin putting more money into the system, payroll taxes would need to rise by somewhere in the neighborhood of 50 percent. Now they are currently 12 and a half percent. They would have to rise to something closer to 18, 19 percent over that period of time.

So, clearly, taking action sooner rather than later is important if we want to shore up Social Security for the long term and give younger workers a better system than the one projected by all of these reputable agencies.

And essential to Social Security's future challenges is this simple fact: By the year 2030, when the baby boom generation is fully retired, there will only be two workers for every retiree. Faced with these circumstances, other industrialized nations have begun to reform their retirement policies and to inject some degree of

prefunding or personal accounts into their systems; and the U.S. Would do well to follow that example.

In fact, polling data shows that, for younger Americans, support for personal investment accounts as part of Social Security is overwhelming. Young Americans are fearful that the current system is promising more than it can deliver. They understand that Social Security in its present form cannot offer them the same security that it is providing for their parents and their grandparents, and they are rightly concerned that they will be essentially forced to pay more into the system while getting less back.

Can we honor our commitment to those currently retired or soon to retire, while moving toward a system that helps younger workers establish personal accounts? Of course we can, and every credible plan advanced that would reform Social Security along these lines shows how that can be done.

I served on the President's commission. We issued a report that included three alternatives, and I commend that report to your review.

Certainly reforming Social Security will not be a free lunch. Inevitably, some benefits will need to be curtailed over time in order to make Social Security more affordable in the long term. But all of these same government agencies identify this basic fact: Significant benefit cuts and/or tax increases will need to occur simply to shore up the current system. All the more reason, in my view, to establish personal accounts designed along the lines of the Federal Thrift Savings Plan for Federal workers so that younger workers have the opportunity to create some wealth for themselves.

In a recent analysis, the Congressional Budget Office came as close as any government entity to endorsing personal accounts as the best way to increase savings and build assets for the future. In a report titled, *Acquiring Financial Assets to Fund Future Entitlements*, which was released on June 16, 2003, the CBO examined the options available to fund Social Security in the future.

The current Social Security Trust Fund, which holds government bonds purchased with Social Security payroll surpluses, was one such attempt to prefund retirement, but most analysts now hold this as an example of what not to do. The government used these payroll surpluses to avoid making tough choices in addressing deficits in the rest of the budget. And in just 12 short years, when the government must begin redeeming this trust fund, it will either have to raise taxes or cut other spending. So while the trust fund looks like savings, it really is a paper asset that has no alleviating effect on Social Security's future funding challenges.

Others have said that we should lockbox Social Security for the future or invest those dollars into private stocks and bonds on behalf of the Social Security system. The CBO looked at these options as well and concluded what some policymakers have suggested, that in a time of budget surplus the government could credit the Social Security funds with more government bonds; when money was eventually needed to pay benefits, the government could sell those bonds. While the strategy may appear to be reasonable, the eventual sale of these bonds would have the same effect as the government borrowing at that time.

So the experience of the past several years shows that a lockbox cannot work because there are always other intervening events—terrorism, war, recession—that can cause political leaders to change their minds about protecting the lockbox.

What about the government investing Social Security funds itself in the stock market? CBO noted that even if the government could run surpluses and devise an effective means to save them, the issue of having the government own private business would remain.

Additionally, Alan Greenspan, anytime he is asked to comment on this issue, cautions us about the government ownership of American business and the potential harm that it could do. Simply put, it is hard for the government under any circumstance to prevent the spending of Social Security as long as it is in the hands of the government. Future Congresses aren't bound by the policies of preceding Congresses, and the commitment to save these dollars in any form would be threatened.

So if these approaches can't work, it really does argue in favor, in my view, of personal accounts as part of the solution. CBO reported this in that same study: assets set aside to fund future obligations are most likely to be insulated by a system in which ownership and control rests with individuals. In these circumstances, each participant has a property right and a legal recourse to guard against the diversion of those resources for other purposes.

So, again, there are those here who may not agree that personal accounts are necessarily part of the solution, but I would suggest that, when it comes to savings, which is crucial to Social Security's future as well as to the savings rate of the Nation as a whole, the nonpartisan Congressional Budget Office has found that personal accounts are the best alternative available to achieve those saving rates.

Last, I want to speak to this whole question of semantics in this debate. There is a lot of use of the word "privatization" in this debate, and it is conjured up as a way of suggesting that somehow if we move in the direction of reform that includes personal accounts we are going to dismantle the existing Social Security system. Nothing could be further from the truth.

Frankly, most recommendations for personal accounts as part of Social Security are fashioned after the existing Federal employees Thrift Savings Plan. All of you here are enrolled in that plan, as are 2 or 3 million Federal workers today. It is a government plan. It is a pension plan that is invested on behalf of the Federal workers in broad-based investments, mutual fund investments. Workers have the option to invest in any one of five accounts, and these accounts over the time that they have been in place have produced sizeable and notable benefits for these Federal workers.

So we are not talking about something that is going to cut people loose and send them out into the private sector to fend for themselves. We are talking about a supplement to a basic Social Security safety net that would be invested in the worker's name in an account that they would own and control.

But the P word, privatization word, is a scary word, and it is thrown around a lot in this debate. But I don't think that it holds up when put to scrutiny, because it is not at all what we are pro-

posing. We are trying to propose, for the future of Social Security, a more secure system than we could have if we simply tried to prop up the status quo. The cost implications of protecting the status quo are far greater over the period of time than the cost implications of reforming this system while making room for personal accounts as part of the solution.

Getting back to our commission co-chairman, Daniel Patrick Moynihan, he referred in our work to the personal accounts as being the logical completion of Franklin Roosevelt's original conception for Social Security, and I think the historical record demonstrates that to be the case. In President Roosevelt's 1935 message to Congress, he outlined a vision for ultimately extending the program to include voluntary contributory annuities by which individual initiative could increase the amount received in old age. I think it is a measure of bipartisan success that we now have a Republican president who is striving to make that FDR vision a reality.

The CHAIRMAN. Could you sum up—

Mr. PENNY. And that is my summation.

With that, I would simply close my remarks by urging folks to stay clear of inflammatory language on this issue. Because whatever side of the debate you may find yourself on today, there is no denying that we are moving toward a huge challenge in this program, and every day of delay adds to the cost, the unfunded obligations in the future; and so we really don't have time to waste.

[The prepared statement of Hon. Tim Penny can be found on page 92 in the appendix.]

The CHAIRMAN. I thank all of you for your excellent presentations.

Let me begin by saying that when I bring up this issue at home, I get two general responses. First of all, the Thrift Savings Plan, when you explain it to them and say it is available to all Federal workers, including Members of Congress, the response is, well, that kind of thing ought to be available for the average guy out there. And obviously the Thrift Savings Plan has been incredibly successful by any account, multibillions of dollars with a solid foundation; again, the concept of saving for the long term.

And the second issue that the people are interested in, the response is, well, if it is voluntary, then what is the problem? That is, nobody is forcing anybody to go into these individual accounts. And although I feel that once people realize the kind of long-term benefit they can get from disciplined investments, where the government can't touch it and the individual can't touch it and it grows for 40 or 45 years during the working life and with what we are told the most conservative return would be 5 percent based on index funds and a mix of investments, relatively safe investments compared to what you are going to get with Social Security, which would be less than 2 percent, a lot of people kind of cut through the fog and are much more inclined to at least recognize that there is a problem.

What about the Thrift Savings Plan? Is that a fair comparison to make? And is it not something that we ought to make available to our own constituents?

Let me start with Representative Kennelly.

Ms. KENNELLY. Well, in all respect to the gentlemen to my left and to my right, they have both been on commissions. I was on the Ways and Means Committee in 1983; and, as you recall, in 1983 we didn't know if the checks could go out for the next month and a half, and we made some very, very serious decisions. I don't know how I was ever reelected again. We raised the age. We taxed Social Security. We did all sorts of things. But you know what? For 20 years, 30 years, we made this system as good as it is today, and we can do the same thing. You don't have to dismantle the system. You just have to take a number of adjustments, and they will be very difficult for all of you.

The CHAIRMAN. What will those be? Are you suggesting we raise the payroll tax again?

Ms. KENNELLY. No, I don't have to do that anymore. You have to. I did it in 1983. I raised the taxes. I raised the age. I taxed Social Security. I don't have to do it anymore. You have to do it.

But you know what you can do, Mr. Chairman? You can do it under the traditional program. What we are seeing now is the President saying do a whole new structure, dismantle Social Security, have a whole new structure.

Now, as far as the Thrift Savings Plan goes, I belong to the Thrift Savings Plan, as all of you belong to the Thrift Savings Plan. And it is a good plan, but it is a smaller plan. You are talking about 144 million people growing into that plan; and you have to understand that when you are looking at a plan like that you have got a whole series of adjustments to make.

But most importantly, Mr. Chairman, let me tell you, with the Thrift Savings Plan, I don't give up one penny of my Social Security, not one penny. And what I understand the President suggesting is a Thrift Savings Plan. You don't have Social Security. It is totally different.

The CHAIRMAN. Well, in fairness, let me just say how I perceive what we are trying to get at. That is, essentially, a three-legged stool of retirement for the average worker, that is, Social Security—traditional Social Security, albeit not at the promised levels that we cannot sustain but at a reasonable level. Second would be the return on a lifetime of work and investment with an individual account, maximum of a thousand dollars a year, by the way, in relatively safe accounts that would be based on a life-cycle type of account where you could take more risks early on and then later have more conservative investments. And, thirdly, it would be whether you are under a defined benefit plan or defined contribution plan where you worked. It seems to me a pretty modern way to go.

What concerns me, frankly—and I would like to have the other panelists weigh in on this—it seems to me we are at a crossroads here whether we are going to go with the European model, which has basically paralyzed economies in Germany and France and other European countries because of the incredible obligations they have unfunded for people's retirement over there, and it is starting to have a major effect on their productivity.

The unemployment rate in Germany is the highest in history; same thing in France. We complain about 5.2 percent unemployment in this country, and some of these leading countries in Eu-

rope, who are supposed to be driving ends of the European Union, can't get out of their own way because of these unfunded liabilities.

Ms. KENNELLY. Chairman Oxley—

The CHAIRMAN. You go ahead and respond, and then I would love to have—

Ms. KENNELLY. Chairman Oxley, right now for the next, what, 13 years we have a surplus in the Social Security savings program. We have a surplus. As I understand it, what the President is saying is that every dollar that you put into your private accounts will come out in guaranteed benefit. Where does that leave the guaranteed benefit?

The CHAIRMAN. Well, as a supplement, as President Roosevelt said when he signed the Social Security Act, that there would be a time when we need to have an individual account to supplement Social Security, which was initially set up as a safety net and a supplement to one's retirement. And that, really, if you look back at Roosevelt, he was in many ways a visionary, and he saw that coming, and it seems to me now is the time.

Ms. KENNELLY. Chairman, let's leave the safety net, okay.

The CHAIRMAN. We are leaving the safety net. That is the whole issue.

Ms. KENNELLY. I don't think so.

The CHAIRMAN. Gentleman from Wyoming.

Mr. SIMPSON. Well, in my day, the soaps were a lot different than they are today. Today, they consist of—well, it is a rich tapestry—

Mr. FRANK. Yeah, they were on radio and not television at that time.

Mr. SIMPSON. That is right. And we were taught to—we listened to Jack Armstrong, the all-American boy, and if you had any inordinate desires, you took a cold shower. I would have ran all the water out of the system in Cody, Wyoming.

But let me tell you, the thing about this story with Barbara, "The Perils of Mary Vogel", that could be a soap, the Perils of Mary Vogel. She took a hit from the airline industry, which is very sad. People took a hit from Enron. Mary Vogel is 76 years old; and not one single plan by Democrat, Republican, Conservative, Liberal, Libertarian or Commie has suggested hitting anybody over 55.

This is the kind of—I have to be so careful—my wife said that, like Harry Truman, it took a long time for me to get him to say manure. But let me tell you, this is demagoguery. The reason it worked in 1983 is because they all shook hands and went over the cliff together. That is why she got reelected. That is why everybody that was in the game got reelected. Because the American people really appreciated that. They knew they had to do something. Now they have got it figured out. You have to do something. But the demagoguery is unbelievable.

You know, in privatization it is not stealing—there is nothing to steal. I had to go through that in the Senate. I said, don't show me the chart again about stealing from Social Security. There is nothing there. It is a series of IOUs. And the IOUs come due in 2015 and '17, '18—figure it out—where they have got to go cash them in to pay the beneficiary.

This is not dreamworld stuff. I am not making this up. There is nothing—there is no plan in there for Al Simpson. There is no fund that says this is what Al Simpson put in, and this is his account. It is not there. They have a number for me. Everything that comes in today goes out next month. And we can't do a thing.

Let me tell you, if you really want to do something, Democrat or Republican alike, start looking at part B premiums on Medicare—

The CHAIRMAN. That is not under our committee's jurisdiction.

Mr. SIMPSON. Take a look. Because the richest people in America are paying only 25 percent of the premium, and the people in the cafeteria are paying the other 75 percent. And we tried to do something, Democrats and Republicans, just to correct that. AARP, they flew out of the—harpies off the cliffs. I mean, give it up.

The CHAIRMAN. Gentleman from Minnesota.

Mr. PENNY. Thank you, Mr. Chairman.

I came to Congress in 1983, and one of my first votes was on that Social Security Commission report. And we did view that vote with some trepidation because we had to do some ugly things. We had to raise taxes and cut benefits, not the kind of thing your average Member of Congress, especially a freshman Member of Congress, wants to be identified with. But we were in a crisis, and we had no good options because, sadly, at that time we waited until the crisis was upon us to do anything.

We now have time to plan ahead, and that is my point. We have got 12 years before there is a cash flow crunch. Assuming that we redeem the trust fund or honor our obligations to the trust fund, we have got a little more time beyond that. But we shouldn't wait, as we did back in 1983, until the last minute.

Secondly, if I could back up and do one thing differently in that 1983 package, it would be to take the surpluses we created with those higher payroll taxes and convert them to personal accounts. Because they have not been honestly saved, they have not been properly invested to the benefit of the individual, and we would be in much better shape today if we had done that with the excess money in the years since then.

Thirdly, the Thrift Savings Plan, as you mentioned, Mr. Chairman, is a good model to look at. Because why did we do a Thrift Savings Plan? It is because we saw a defined benefit system for the Federal worker that was unsustainable over the long term. We are looking at the same problem with the Social Security system. No one is talking about removing a safety net for all Social Security recipients, especially the poorest of the poor, but we are talking about whether it makes sense beyond that safety net to continue a defined benefit program for the wealthier retirees as well, or whether we can convert at least some portion of Social Security into a defined contribution plan. We did that for the Federal workers. It is a model to follow.

Can it work? Yes, there are only a few million Federal workers. This would be a sizeable program of 140 something million workers in our workforce. But this has worked for the Federal workers, from janitors to rocket scientists. They have all figured this program out, and they are generally happy with the program. That is because we have managed risk, we give them a governing board

that determines which funds are made available, we give them five options, broad-based mutual funds that are managing the risks rather effectively, and we have kept administrative costs very low in this Thrift Savings Plan. So it is a model that we could look at if we decide to move in the direction of personal accounts as part of Social Security.

The CHAIRMAN. Thank you. My time has long expired.

The gentleman from Massachusetts.

Mr. FRANK. Thank you, Mr. Chairman.

One thing that strikes me—I know we keep hearing that everybody is entitled to his or own set of facts. Apparently, everybody is also entitled to his or her own Pat Moynihan. That is part of this debate. And he is safely—sadly, but safely dead.

As I listen to the references to Pat Moynihan and to Franklin Roosevelt and Harry Truman, I am reminded of I think the most prominent form of sort of political necrophelia in America, which is that conservatives have a great fondness for dead Democrats, people who were very much opposed when they were alive and proposing things that were demeaned as terribly radical now find that, when they are safely iconic, they can be invoked.

I would be interested myself, if we were going to look at Pat Moynihan, on what his views would have been about the tax cuts that we recently enacted, and I would be glad to listen to Pat Moynihan's wisdom if it came in whole and if it wasn't cherry-picked for these purposes. Because that gets to my point—the gentleman from Minnesota mentioned the 1983 Act, others mentioned the 1983 Act, and we generated those surpluses.

One of the questions that is really before us—and I appreciate his making it clear that we don't have a problem on the cash flow side until 2018. I should say when we talk about demagoguery, one form of demagoguery, which has been defeated in part because of the facts, is this argument that we are in an immediate crisis. There was an initial effort to scare people by suggesting that the crisis was more imminent.

Now I understand people who would like, on philosophical grounds, to change the way the Social Security system works. It is one thing to make that argument. It is another to claim, quite falsely, that there is a near-term crisis, as Mr. Penny has acknowledged. We are in a surplus cash situation until 2018, and we should start looking at this, but we are talking 13 years, a longer time horizon than we usually deal with for the government.

But I do want to ask particularly my former colleagues, Mr. Simpson and Mr. Penny, there is talk about these IOUs—we often talk about government bonds. I guess we should talk about the government IOUs, instead. But the question is this. Do you think, as a matter of public policy, we should credit Social Security with all the money that was paid in and the interest accrued or should we not?

I understand you have described factually, both of you, that there has been this tendency to treat it, as the President said, as leftovers and spend it. But as we deal with the philosophical issues here, as a matter of public policy do you believe that we should consider ourselves, as Members of Congress, bound to credit Social Security from now until 2042 with all of the money that was paid

in and the interest that accrued? Is that part of the equation or not? Mr. Simpson.

Mr. SIMPSON. Well, Congressman Frank, I never used the term leftovers—

Mr. FRANK. I know. President Bush did. But I didn't ask you about leftovers.

Mr. SIMPSON. I have been involved in this in a bipartisan way for a long time. I never went home and beat up people—except the AARP—and so all I know is that I was on the commission—

Mr. FRANK. I just asked you the question, should we put the money in—

Mr. SIMPSON. That would be absolutely absurd. They would rip the doors off Fort Knox to get that one done—

Mr. FRANK. So we should not credit to Social Security the money that was paid in—

Mr. SIMPSON. That was not in anybody's law. It was not in Roosevelt's law—

Mr. FRANK. I concede. It is not the law. We can break the promises if we want to.

The question is, as a matter of public policy, should the Congress of the United States credit to Social Security as we calculate the resources that are available the money that was paid in under the rubric of Social Security taxes and the interest that we said would accrue? Should we or shouldn't we, as a matter of public policy?

Mr. SIMPSON. Give it to Tim. My brain won't handle that. I think it is absurd.

Mr. PENNY. Well, I think we need to be honest about where that money is going to come from. That is the point. I don't have a problem with assuming that we are going to find that money somehow, but I think we need to be honest about where we are going to find it.

Mr. FRANK. Should we, as a matter of public policy, do it or not?

Mr. PENNY. Well, as a matter of public policy, I don't see how we won't continue to count that as part of Social Security's future, whether you are for the President's approach or for some other approach.

Mr. FRANK. Well, in that sense, by what you say, we don't really have that problem—

Mr. PENNY. Well, we do have a problem, because saying that we are going to honor it doesn't make it easy to honor it. So—

Mr. FRANK. But you agree that we should.

Mr. PENNY. Well, legally, we don't have to.

Ms. KENNELLY. Yes, we do.

Mr. PENNY. Legally, we don't have to, but morally we probably should.

Mr. FRANK. I stipulate that legally we don't have to. We are the government. We can do whatever we want, and nobody could sue us. But the question, Tim, should we, as a matter of public policy, do that?

Mr. PENNY. This is debt owed internally, so legally you all, as Members of Congress, could change.

Mr. FRANK. Should we?

Mr. PENNY. I am not recommending that. I don't believe that we should, and I don't believe that we will, but I think we have to be honest——

Mr. FRANK. I will tell you what. I will be honest about the consequences if you will be honest about whether you think we should or shouldn't. I understand the consequences, but I will go back to Pat Moynihan——

Mr. PENNY. Then as long as the two are linked—because if you deal with them separately, then we have this fantasy land in which we treat the trust fund as if it is somehow easy cash, and it is not easy cash——

Mr. FRANK. I keep my fantasies out of the office.

Mr. PENNY. You have got to find a way to put the money back.

Mr. FRANK. So the question is—and I understand that. And we will get honest. I think we are getting now into tax cuts and other forms of expenditures, and that is when we selectively quote Pat Moynihan. I don't think he was an advocate of all the tax cutting that happened. But it is a very simple question. Do you think we should do that——

Mr. PENNY. Yes, I think we should. And hand in hand with that, I think we need to have an honest discussion about how we——

Mr. FRANK. I agree with that.

Let me ask you one further question, to all three people here. One of the things that has been controversial—and it was mentioned—that in the 1983 Act for the first time taxation was applied to part of the Social Security benefits that people got if they were above a certain income. I think it should have been indexed, but it was an effort to try and deal with the upper income issue that Senator Simpson referred to. Then, in the 1993 Act, we further increased the percentage of Social Security benefits, I think, to 85 percent that was subject to taxation, with some of that money being circulated into the Medicare fund to try to do a little—aim it literally at that problem. That has become controversial.

And the Senate budget—and I can say that now, thanks to my colleague from Florida, Mr. Feeney, who did what I was unable to do and get the rules changed so we can now talk about the Senate in a sensible way, and I acknowledge his success there——

The Senate budget resolution calls for a repeal of some of the taxation that goes on Social Security benefits for upper income people. I would ask all three panelists, do you agree with the Senate in that? That, frankly, would seem to me to be a retreat from the kind of responsibility that we should show. Do you support the continuation of the level of taxation of Social Security benefits of some of the upper income recipients.

Mr. SIMPSON. You keep coming back to me, don't you?

Mr. FRANK. Yes, well there are only three people. I haven't got all the choice in the world.

Mr. SIMPSON. Now, look, Barney, I am going to see you later! No. What they did, let's get serious. They exposed—I do not remember exactly—but they exposed 85 percent of the benefit to a tax of 15 percent. But you go out in the world, and it is, oh, they did an 85 percent tax. I mean, everything is taken to a level of babble. And that is why it is not going to get solved. This is the worst——

Mr. FRANK. But that is why I ask you your opinion. Should we repeal that, or should we leave it alone?

Mr. SIMPSON. Look, I am for affluence testing. I say, a guy making over 60 grand a year in retirement ought to be kicking in a hell of a lot more money. What do you think? I sound like a Democrat.

Mr. FRANK. You are in the House now, not the Senate. We have a little bit more confinement in what we can talk about.

Mr. SIMPSON. Of course, I am not going to sit here and babble about tax raises. Let's start talking about Medicare, then give this up. This is peanuts.

Mr. FRANK. Should we maintain the current level of taxation of a percentage of Social Security benefits?

Mr. SIMPSON. Well, I—yes. What do you think of that?

Mr. FRANK. I am relieved.

Barbara.

Ms. KENNELLY. Well, first of all, Barney, let me tell you, by law, we have the full faith and credit behind those bonds. I mean, I heard you—

Mr. PENNY. Technically.

Ms. KENNELLY. No. No. By law of full faith and credit, you have to pay those bonds, and you people are going to have to change that law if you do not want to pay those bonds.

Mr. PENNY. There we agree. We agree on that.

Mr. SIMPSON. I agree with that.

Ms. KENNELLY. And can I take my hat off, as the national president of preserve Social Security and Medicare? I do not think we ever should have taxed Social Security.

Mr. PENNY. I have no problem with it. You know, there needs to be some means testing here, and that is kind of a back door. It is a back door means test and, you know—

Mr. FRANK. I agree with you.

Mr. PENNY. I supported both of those, the 83 and the 93. And I think it ought to stay in place.

Ms. KENNELLY. Because you are in a deficit right now. You are in a deficit right now. You have no money.

Mr. FRANK. And I do think that greater progress both as to how much of your income is taxed and to what the benefits are is going to have a part of the longer term solution, and to repeal the taxation now would, I think, go in exactly the wrong direction. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Texas, Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman. I have to follow that?

Ms. Kennelly, thank you, first, for your service to your country. I have a question. Looking in your testimony, you talk about I guess for lack of a better term, hazards and vicissitudes of life in referring to the risk associated with personal accounts. But aren't there a lot of risks to leaving our Social Security in the hands of Washington? We have been discussing the trust funds. Historically, the trust fund has already been raided 59 different times. We have had 20 different tax increases, which means every time you are putting in more money and receiving the same benefits, your rate of return is going down. We have decreased benefits including the

taxation of Social Security benefits, which you just alluded to. We currently have no ownership rights in our Social Security. We have had a number of Supreme Court cases attest to that. So maybe there are some risks associated with the marketplace. But aren't there a whole lot of risks involved in leaving our retirement security in Washington as well?

Ms. KENNELLY. Yes. The hazards and vicissitudes of life is a direct quote from President Roosevelt. We do have a real problem with savings in the United States, and that is why I am glad you are having this hearing. And you know, I think one of the best saving plans and probably the only one we have right now is Social Security. Every time we get a pay check, you and I, every 2 weeks, Social Security is taken out of that pay check. And that will be there when we retire. And we can count on that. We cannot outlive it, and it is adjusted for inflation. So no, I do not think we should change the system.

Mr. HENSARLING. Let me ask you this question. I guess you also alluded to the fact that you are not in this business anymore of having to come up with reforms. But as I understand current law, if we do not act, in 2042, we are looking at approximately a one-third cut in Social Security benefits. Now, you say that personal accounts will lead to significant benefit cuts. But by not choosing a reform plan, haven't you chosen the status quo? And the status quo, I think, by any account includes a huge benefit cut for, among others your 3-year-old granddaughters. I have a 3-year-old daughter. And aren't we looking at massive benefit cuts for them if we do nothing under your plan?

Ms. KENNELLY. No, I do not think so because I think we have got a surplus to 2017, and I think all of you can resolve this situation before then. But if you look at what the President—he has not laid out a plan. We know that. But he has looked at a second commission plan, and we see the cuts in benefits. And the guaranteed benefits, every dollar you put in to a personal account is taken out of your guaranteed benefit. And so as a result—I have to tell you something. Some people forget it. The market goes up. The market goes down. And you cannot—what the President is saying, there is a hope, there is a hope that every young person will get more. Can I tell you something? That is only a hope. What I say is there is a risk.

Mr. HENSARLING. Well let's talk a little bit about the market. First, according to the Social Security trustees, according to GAO and just about anybody else who will opine on the matter, if we do nothing, today's younger workers are either going to receive a benefit cut of about a third or they are going to see their payroll taxes increased by 43 percent. Or we can explore the President's option of looking at personal retirement accounts. Now, you allude in your testimony about the stock market goes up, the stock market goes down. And indeed, it does on a day-to-day basis, on a month-to-month, and on a year-to-year basis. But I think, with the exception of the Great Depression, there has never been a 4-year consecutive period where the stock market has declined. And indeed, the Heritage Foundation has done a study and has said that a 66-year old male worker who received \$35,000 of salary who is presently, as he retires receives about \$1,500 Social Security. Had he been allowed

to invest half of his Social Security in a personal account, in half stocks, half bonds, over his working life, he would be making three and a half times that, over \$5,300 had he been allowed to be in a personal retirement account. I mean, right now, that is a much greater rate of return than Social Security is promising but cannot deliver. Why, if there are only three choices on the table—massive benefit cuts, massive tax increases or giving seniors greater retirement security with a rate of return that over 20, 25, 30 years of their working life will give them greater retirement security, why wouldn't we choose that plan?

Ms. KENNELLY. Well, first of all, Congressman, there is not only three things on the table. There is a number of adjustments on the table. Washington is full of adjustments. We have talked about them for years. And if you cobble those adjustments together—and they will be very difficult things for you to have to decide about—but if you cobble those things together, you can keep the traditional system.

Now, your gentleman that you are talking about, maybe he would do better. But what I have to say to you is that Social Security was never meant to be an investment system. Never meant. It was a safety net. It was a social insurance program. I know none of you like to hear that word but that is what it was. That was so that people, as they got older, after they stopped working, they have income. And by the way, we have never heard in this room today the word disability. And I understand from the Commission—and Congressman Penny was on the Commission—I understand they said, well, they only had 6 months; they could not adjust or they could not address disability. Let me tell you something. One-third of those people taking Social Security is not retirement. It is survivors and disability.

The CHAIRMAN. The gentleman's time has expired.

Gentleman from Pennsylvania, Mr. Kanjorski.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Senator, I have always enjoyed your frankness and candidness. I appreciate it today. I do not think we can get to the heart of this matter unless we do away with the hypocrisy on both sides, and I agree with you in that regard. But I want to highlight one of the hypocrisies that really bothered me in the last 7, 8 years, if you recall, a Contract For America allowing people to draw Social Security regardless of their income at 65. When I go home to my district, I refer to that as the lawyers, doctors, accountants and business executive relief act because, in reality, that is what this Congress did. It gave a hundred billion dollars more away of Social Security by arming the right of people regardless of if they are employed at higher incomes than they had in the past to draw full Social Security. And I did not hear any outcry from the community, whether it is the business community or the country as a whole. It just went by. And as a matter of fact, it is interesting to note, that cost about a \$100 billion to the Social Security system. And to fix the notch years problem would have cost \$50 billion. So when you look at the equities involved, it is disturbing to me.

Two, I do not think we solve Social Security until we solve the budget crisis in the United States and get to a balanced budget. And I have seen, over my course of years, I have served a good part

of time with Barbara and Tim, and we went through hell in 1993 to get this country on a course of a balanced budget. And then, in the 2000 election, we saw hypocrisy arguing that that money in Washington in the surplus is your money. And they went without a vengeance, and they gave not only the surplus away—if there was any surplus, and I am not sure there ever was—they gave a hell of a lot more. And now they represent to the American people, we only have a \$412 billion deficit, when in reality, we know we do not count the cost of the war, a \$100 billion. We do not count the \$150 billion of taxation that we are taking into Social Security and expending it for general operating expenses. So as we sit here today, we have a \$680 billion deficit but nobody answers that. And then we have the President circulating around the country, making the suggestion that private accounts are a solution to all problems, when in reality we all know it does not do anything for the solvency of Social Security. All it does is reconstruct the program and, interestingly enough, not to contribute one more dollar toward the rescue but to in fact, just go further in debt, and I think intolerably in debt.

I cannot understand why, particularly senior citizens like yourself, Senator, cannot, you know, belly up to the bar if you will and level—be the spokesmen of rationality to the American people, and tell them that their president and their Congress are lying to them. And what I fear is we could easily make adjustments that Barbara is talking about, increase the caps a little bit, increase the rate a little bit. And it will look perfect. But the reality is, so we take a \$100 billion more a year in from Social Security payments. If we are spending it to make up the general shortfall of revenues in the general fund, what have we accomplished? We are using Social Security for general tax revenues, and that is the greatest sin of all.

And then to have the President say we are not going to honor that commitment and pay back those funds sometime in the future certainly questions whether or not our lenders are going to continue to be there as loyally as they should be.

So, having been with all these great minds over the last 20 years, Senator, and having been as candid as you have always been, don't you really believe that to solve Social Security, to solve Medicare and to solve Medicaid, it is fundamentally a question of revenues for general expenditures of the United States, and that we have to get back to a balanced budget before any solution really applies?

Mr. SIMPSON. You are finished?

Mr. KANJORSKI. Yes.

Mr. SIMPSON. Mr. Congressman, with that attitude, nothing, nothing will be solved. If you want to go on that tack, keep right on going, and nothing will happen for your country. They can do it over here, you can do it over there. You are all good at it. I have been in it. But I never played it. Hypocrisy is the original sin around this place, saying that you are doing one thing and then doing another.

You know, all the stuff I watched here, I am not—I certainly am not a temple of rectitude. But I will tell you, if that is your tack, and to bring up, you know, the old crap and just keep stringing it out, about the Contract For America, this or that; get back to the

issue in front of this country and that is the Social Security system. And the only reason you are playing with this one first, if you cannot solve this one in a bipartisan way, Medicare is going to eat this country up. Forget this other stuff. Social Security and Medicare are the entitlement programs that will crush out all discretionary spending. And when you come in here from your district seeking a little education money or a little whatever, whatever, it will not be there. It will not be there.

And who is telling us that? Everybody with a brain is telling us that. Every good person on the right and the left is telling us that. The status quo is the cruelest cut of all. If you want to talk about the cruelest cut, the cruelest cut is the status quo. Nobody over 55 is going to lose a nickel. That gets lost in the babble and the hysteria. Just a second. I have just got to finish.

May I finish? I listened intently to you, sir.

Social Security was set up for the little guy. It was an income supplement. It was 46 percent of the replacement rate for a ditch digger. That is what it was for. It has been distorted beyond belief with disability, student aid. We finally stopped that one. Everything that happened to it, it collapsed of its own weight because of generosity. Let me tell this little caper. In the Senate, we put in an amendment, it passed the House and the Senate that, and said if the cost of living allowance goes up less than 2 percent, there will be no COLA for Social Security. Oh, it was a good idea, and it passed. But guess what? And it was Republicans and Democrats that did it in. Once it reached 1.5 percent, they went to the Floor and said, how about the little people? How about this and that? And so they blew that one right out of the water. There is not anything you cannot blow out of the water with demagoguery about senior citizens

The CHAIRMAN. The gentleman's time has expired.

The gentleman from the first State.

Mr. CASTLE. Thank you, Mr. Chairman.

Let me just bring in a little bit of politics. And I think I want to ask Senator Simpson and Tim Penny this question. But I just read an article in the Washington Post from Monday and just excerpting from it, it said in different places, numerous studies of retirement savings programs such as 401(k) plans have found that choice may be the last thing that people want. And some expert from Wharton School said, in the society of specialization, people would rather trust their investment and savings decisions to perceived experts just as they trust their car repairs to mechanics and their legal problems to lawyers. And at the end, they went to a woman who had some economic woes and problems, et cetera. And they said, Bush's Social Security proposal would let the woman divert some of her payroll taxes, 4 percent of her earnings, into an account with her name on it. She could invest and mix it with stocks and bonds or apply it all to the Treasury notes, just above the savings investment, and watch it grow. Singletary thought about it for a moment, then shook her head. I still like the old routine, she said, I like the check.

I had a half dozen town meeting at home, and I sort of ran into the same thing. A lot of people just were not that interested in making investments. Maybe they are like me, you know. I wait till

the market is topped out, and then I make my investment, and it goes down. And there is a record of people doing that, by the way. Most of us average investors do not do particularly well. I am trying to look for a method—I think there is a problem, and I think some of the solutions you are talking about make some sense, but I am trying to look at a way of selling this. Is one potential way of selling it, instead of having a basket of investments, even a Thrift Savings Plan which the Chairman asked about, to do something such as what most mutual fund families are doing now, which is have a year related type of plan with more equities than bonds and later on that kind of thing, or pure Federal investments at a later time and just one thing so you are basically riding with the market and everybody understand what it is? And if you are 40 years out, you may have 80 percent equities and 20 percent bonds and narrowing down to the time you retire when maybe you just have nothing but Treasury notes or something of that nature? Should we be considering something a lot simpler, so there will be more acceptance of this in terms of these so-called personal investments? Have we made it too complicated?

Mr. PENNY. Well, as I mentioned in my remarks, I think and in response to a question posed by the chairman, I think the Thrift Savings Plan is a good model. I do not think it is terribly complicated. Janitors in the Federal work force have figured it out.

Now, whether we should have another fund in there, that would be sort of a life—a life cycle fund where it sort of changes over time, becomes more conservative as you reach, in terms of more bonds and such when you reach an age closer to retirement, I think that that makes some sense. But I would——

Mr. CASTLE. You would keep the thrift savings but maybe add something.

Mr. PENNY. Yes, but maybe add this——

Mr. CASTLE. I am looking for simplifications.

Mr. PENNY. Or a fail safe for those who make no choice. But I would not want to totally eliminate choice. I think the Thrift Savings Plan works well for all sorts of Federal workers, some of whom are not market savvy, but they have figured it out. So I think it can work for us.

Mr. CASTLE. Thanks, Tim.

Senator?

Mr. SIMPSON. My cell phone has a symphony on it.

Mr. CASTLE. Well, if you have got to take the call, we can go on to another question

Mr. SIMPSON. No, I do not need to take it here unless you all want to listen.

Yes, you asked a question, Mike. Yes, life cycle investing, I think, is a vital thing. That is the new title for that. So if you are 40 years back, you are doing a different kind of investing; 30, 20, and you keep changing that. I think most mutual funds are going to that. I think the confusion that comes from this plan, from the President's plan, let's call it that so that we know what we are talking about, about the evil empire, the President's plan, I have a little confusion myself about what is the percentage. It kind of bounces around. Is it a quarter of the 6.2? Or is it 4 percent of the 6.2? Or

is it 4 percent of the 15.4? And I know that that should be steadily related, but it is related through different mouths.

Mr. CASTLE. I would like to ask another question. May I do that before my time is up?

Mr. SIMPSON. Yes, you can. Ask her a good tough one.

Mr. CASTLE. Any of you can answer this but I really—my time is almost up. But essentially, I mean, as I look at this thing and I listen to the Republicans and Democrats, basically Republicans are taking the position that we are not going to raise taxes at all. So we are not going to take the cap off, whatever the heck it is now, \$94,000. We are not going to raise rates. In other words, we are not going to have any additional revenue coming into it. The Democrats seem to be taking the position—and I do not mean just here—but seem to be taking the position that they are not going to reduce benefits at all, essentially that they are not going to raise the age at which you would get it or change the cost of living or whatever it may be. It is pretty simple. If you are not going to do either one of those things, you are not going to solve the problem, is the way I look at it. To me, it is just two forces that have come together for political reasons, and nothing is happening, in addition to the earlier question I asked about the investments type thing, in addition to other problems that exist out there. How do we break through this?

Well, I will tell you what impresses me the most, and, Senator, you served on some of these and so has Tim, as a matter of fact, served on some of these type commissions. But do we need something to move this away from the pure politics, like a 9/11 commission? And I was really impressed by Tom Kean and Lee Hamilton when they said they were going to do it together. Everything was going to be done unanimously, and they came up with a recommendation. Do we as elected officials need something like that to back us up in order to get this done?

I do not think anyone can deny there is a problem out there. Maybe you can deny you do not want to go to the personal accounts, but nobody can deny that there is a financial problem out there, and in a few years, we have got to do something at some point or we are going to have a crisis.

The CHAIRMAN. The gentleman's time has expired.

Mr. CASTLE. Can I have my question answered?

The CHAIRMAN. Yes.

Mr. CASTLE. Does that make sense to have a commission is the question.

Mr. SIMPSON. Well, sure it does. And I have the naive view that because the crisis was so evident and there had been commissions and the Danforth-Bob Kerrey commission and this commission and that commission and thoughtful people and think tanks on both sides presenting enough evidence.

But after the diatribe that I have heard, you need to get a commission to cover yourselves again because you ain't going to make it. You had better get a commission, and you had better get it together because this obviously does not have anything to do with Social Security or the reform of Social Security. It has just reached hysterical political babble. And it is disgusting.

Ms. KENNELLY. No, Senator.

Mr. SIMPSON. Yes. Yes.

Ms. KENNELLY. No. No. To answer Representative Castle, no, I will answer you. Every time you say that you are not going to take a red dime from people 55 and older——

Mr. SIMPSON. A red dime?

Ms. KENNELLY. What did you say? You are not going to take——

Mr. SIMPSON. No. Go ahead.

Ms. KENNELLY. Red nickel.

Mr. SIMPSON. Anything.

Ms. KENNELLY. Whatever. You are not going to take anything from people 55 and older. So, you know what, I am sitting here looking at a mother who is 70 years old, and she has got a daughter 47 years old. And that daughter has a couple of kids, and life has not worked out too good. My members are older. My members are 65 and older. My members are not caring about whatever red or blue nickel you are taking from them. They are worried about their children, and they understand that Social Security is a traditional program that will protect their children when they retire because some of us are going to have hard luck. You talk about 55 year olds. You want to know, Congressman Oxley, you want to know what our line of defense is right now? It is older people that understand that one-half of them would be in poverty without Social Security. It is older people that understand that two-thirds of them retire for half their income on Social Security. What is going to change in the next 10 or 20 years that people—are they going to be wealthy all of a sudden? I do not think so. I think you people have to protect the Social Security system. And then, what you are doing today, financial education, absolutely do it. Make sure people put their money in a 401(k). Make sure people have an IRA. Make sure people save who are not saving. You are doing absolutely the right thing. But do not take away Social Security.

Mr. SIMPSON. I know it is inappropriate, Mr. Chairman, to respond to a fellow witness rather than addressing the Chair. I know that. So I will address the Chair. I would say, and I respect Barbara, and I watched her in the Congress, and we worked on some things together. These people are not worried about their children. They have seen their children and grandchildren walking on their pants with their caps on backwards playing Snoopy Snoopy poop dog and Enema man, and they do not care about them like they used to care.

But I will tell you if this is the case, if this is the case that the seniors are caring about only their children, then stop using the word cut. Stop putting in your course—I am a member of this group. Let me tell you. I get e-mails. I get FedEx packages. I get mothers milk. They send me everything. And in there, it says, call Enzi and Thomas and Cuban and tell them not to cut us, us meaning all these people over 65. If that is not hypocrisy, I have missed everything

Ms. KENNELLY. I have nine grandchildren, and I care

The CHAIRMAN. The gentleman's time has expired

Mr. FRANK. Mr. Chairman, can I ask unanimous consent that further——

Mr. SIMPSON. You left last time and left him with those questions.

Mr. FRANK. Further testimony from Senator Simpson be rapped rather than spoken.

Mr. SIMPSON. You will pay dearly for that.

The CHAIRMAN. The gentleman from Georgia, Mr. Scott.

Mr. SCOTT OF GEORGIA. I hate to interrupt this colloquy, but let me see if I can get to where I think the problem is. And first of all, let me make the record strong and clear: We on the Democratic side are fiercely, fiercely strong on protecting Social Security. Let it be known that this is a Democratic program by a Democratic president. And we talked about FDR. But when FDR made this program, FDR, in 1935 I believe—

Mr. SIMPSON. 37.

Mr. SCOTT. 37. I forget the day but there was an interesting program over this past week by the History Channel that brought FDR back to life. And when FDR signed the Social Security Act, he said this: He said the reason we are signing this act is so that the American people, our senior citizens, will never again have to wallow in the dust of poverty. Social Security is not an investment program. It is an insurance program.

And I think that is where the problem is. And I would like for each of you three to respond to the problem that we face here, now is this Trojan horse called private accounts. We will never be able to deal with the true issue of strengthening and saving Social Security as long as we are batting around this Trojan horse called private accounts. President Bush has gone all over the country with campaign stops where he has his crowds policed and secured so that only people who would agree with him would come in. But wherever the American people have had to come in unfettered to be able to give their opinion on this issue, they have strongly rejected private accounts. And I tell you why. And I hope you will agree with this. It is almost like trying to fit a round peg in a square hole. The whole investment arena and Wall Street and the private sector and privatization is wonderful. It is fine. But it is an exercise in collective risk taking; whereas Social Security is a collective exercise in risk reduction, guaranteed benefits for life's misfortunes, for children without the father and the bread winner. It is not an investment program. And secondly, it did nothing to solve the Social Security problem of solvency.

So what the American people, I think, are looking and hoping for is, yes, to get to the real solution of Social Security. But as long as private accounts—the only thing, mind you, that President Bush has even put on the table, the only thing there. Don't each of you agree that the American people are looking for us to move this Trojan horse off and not get it mixed up? Because Moynihan, you quoted him, and you quoted him almost right. But he did bring up private accounts. But he brought it up outside of Social Security. Private accounts, on the other hand, not only do not solve Social Security's solvency problem, but it takes money out, \$2 trillion, minimum, just setting it up over the next 10 years, which exacerbates the problems for other benefits.

So I think we need to deal with this Trojan horse. I think we need to understand it and put it in its proper perspective, get it off the table. And then if we want to solve the problems with Social Security, wouldn't it make sense to solve the problems of Social Se-

curity on the legs on which Social Security stands and fix that problem with the toughness it will need, whether it is benefit cuts, whether it is raise the minimum age of retirement, whether it is expanding to \$90,000 income level?

But the American people will look, with honesty and a lack of hypocrisy, if we dealt with Social Security on the merits of the program on the intent of it and move this Trojan horse called private accounts out of the way.

Mr. PENNY. Mr. Chairman, if I might be the first to respond, and others can jump in of course, if they want. First of all, since I was on the commission that Senator Moynihan cochaired, he did sign off, along with every other commission member, on reform plans that included personal accounts as part of Social Security, not an add on, but as part of the Social Security revenues that are currently being raised.

Mr. SCOTT. Well, that is not my understanding.

Mr. PENNY. The objective of the President's commission is to strengthen Social Security, and it is a 250-page report. Check it out. And he did sign off on that approach. Secondly, though, I think to your point on personal accounts being part of the debate, I do not know—you know, and this also gets to Congressman Castle's question about a commission. If you are going to have a commission, and I am not sure that that is where we are going to go on this issue, but with or without a commission, everything has to be on the table. And personal accounts need to stay on the table just so we can look at all possible options for the future of this program.

The CHAIRMAN. The gentleman's time has expired. The gentlelady from Illinois, Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Just a couple of things that—one fact is that personal savings as a percentage of personal income has decreased from 7.5 percent in the early 1980s to 1.1 percent in the last two quarters of 2004. So we are seeing that people are not having a nest egg and a lot of people then are relying on Social Security as—completely for their retirement. What we have found, I have founded a financial literacy caucus, financial literacy and education caucus, with my colleague, Representative Hinojosa. And we have had just great bipartisan support for this and as well as private companies coming in with all of the education tools that they are using to educate the public. And in going to town hall meetings and talking to constituents, they were so afraid of the personal accounts because they said well, they did not know how to invest, and it is just going to put money in, and they would not know how to do it, and they would lose all the money, and realized the importance of financial literacy, that people really need to understand our whole financial system. They did not know what compound interest was. Students did not know the difference between a check, cash, or whatever. And so this has been a big boom. And I think that the financial literacy is so important to the understanding of the American people of Social Security. And I know Congresswoman Kennelly alluded to the financial literacy. If you could comment on how you think financial literacy will tie into the personal accounts and the whole understanding of Social Security.

Ms. KENNELLY. Congresswoman, I thank you for doing what you are doing. What I have found, serving, is that we have become so busy, you know we have got e-mail. We have got phones. We have got computers. I have, you know, I told you about my nine grandchildren. But I have three daughters that work. They are so busy all the time. Why I am so insistent on wanting to make sure that we have this financial safety net of Social Security is that I do not think people do have enough time to be thinking about what they should be doing and saving. And I thank you for doing that because we have to save for our future. There is no doubt about it.

You just look at the way the whole financial world is right now. Social Security is very moderate. Compared to other countries, Social Security is nothing. I mean, the average income is like \$9,100, and so we have to do what you are saying and educate, and I thank you for doing it.

Mrs. BIGGERT. Would anyone else care to comment?

Mr. PENNY. Well, we have a lot of options for savings now, and part of the problem is that too many people, about 50 percent of our work force in fact, get all the way to age 50, which is pretty close to retirement, and they plan—they have not made any plans beyond Social Security. So, frankly, I am of the view that one of the virtues of doing a personal account above a safety net within Social Security is it will educate people about what those investments can do, and it might incent them to supplement that savings with other savings because all of the other voluntary tax credits and other savings incentives in the code today are not getting the job done.

Mrs. BIGGERT. I think that was the point that I was trying make, that once they see, like, a Thrift Savings Plan or they have had the education in economics, that they will realize that they can have an ownership through Social Security but also then will be able to have the knowledge to invest beyond that. So thank you. I would yield back.

The CHAIRMAN. The gentlelady yields back.

The gentleman from Texas, Mr. Green.

Mr. AL GREEN OF TEXAS. Thank you, Mr. Chairman, and Mr. Ranking Member.

Thank you, the members of the panel, for the service that you have rendered to our country. I compliment you, each of you. I believe in America. I believe in the greatness of America. And having had an opportunity to travel to other places, I have concluded that one of the things that makes America great is how we treat people in the streets of life, those who, for whatever reasons, do not have very much as opposed to those in the suites of life. How we treat people in the shadows of life, how we treat people in the twilight of life, and I think that Social Security is a means by which we take care of people in the shadows and the twilight of life.

I represent a very diverse constituency. We have some lawyers and some doctors. But we have a lot of janitors and teachers and preachers and yard men and service station attendants, ditch diggers. All of this is honorable work. They all pay 6.2 percent, for the most part, of 100 percent of what they make because most of them make less than \$90,000 a year; 6.2 percent of 100 percent, and they

do it without complaining. We do not hear them whining about how this 6.2 percent is going to place them in the poor house.

The question becomes, why do we not? And they call this to my attention: Why do we not want to see others who make more than \$90,000 a year—I hate to say they can afford it, but a lot of people think that they can—why don't we want them to pay more of their income into Social Security? If 6.2 percent is good enough for yard men and ditch diggers, 100 percent of their salaries, why is it not good enough for those who make far in excess of \$90,000 a year? This is a real problem for people who work hard every day for every penny they get. And we rarely address this question. So I would ask that you, each of you, if you would, address the question of the 6.2 percent extending to those who make a lot more than yard men and ditch diggers.

Mr. SIMPSON. Yes, sir. And I think it was Representative Davis that was the person that spoke before. Was that you, sir? That was an excellent relation. And Congressman Green—

Mr. AL GREEN OF TEXAS. Yes, sir.

Mr. SIMPSON. Well, now, hang on tight, because I was at a seminar with Senator Paul Simon, who was a very dear friend of mine who died a couple of years ago. We had a seminar at Southern Illinois University with Senator Dave Pryor, Democrat of Arkansas, and Jack Danforth, Republican of Missouri, and Paul, who was a Democrat from Illinois. And our recommendation was to raise that. It was unanimous, to raise the \$90,000. In fact, some of us, nameless of course, recommended taking the lid completely off and paying the whole thing on whatever you made. Anyway, it was unanimous to raise that. And so I have been over that cliff. And I found people who came to me, you talk about the ditch digger, I will talk about the rich guy, who came to me and said, "Just take the lid off and I will quit working as hard." I said, "You would not do that; that is nuts. You are making a wad." Well, I would. I said, "Well, I must have missed that somewhere!" So I have no problem with that whatsoever and have put myself in the public eye with regard—

Mr. AL GREEN OF TEXAS. Senator if I may, and I beg you to indulge me, because I greatly appreciate the comment that you just made. But I would say to that person who told you that, I would look him in the eye and I would say, the ditch digger does not stop digging.

Mr. SIMPSON. Well, I did not want to get into that. I am just telling you I was not pleased at his remark. I did not clap him on the back and tell him he just told me a joyful thing. I said, I think you are a greedy—

The CHAIRMAN. The gentleman's time has expired.

Mr. PENNY. Mr. Chairman, if I could quickly respond.

Mr. SIMPSON. Let me just say one thing. I think, I just want to say this—

The CHAIRMAN. Let me respond—if you respond, Senator Simpson, and then, Mr. Penny and then we have got to get on to the other side,

Mr. SIMPSON. No.

Mr. PENNY. I just want to respond in three quick ways. Since I already mentioned earlier in testimony that I do not have a prob-

lem with a means testing approach to, you know, dealing with Social Security's future. This is a different way of going about it, where you would tax the wealthier workers more. So if that is part of the package, fine by me.

But I would say two quick things. I think you can make a stronger case to extend this benefit to all income if you are focusing strictly on survivors and disability benefits, because those are more insurance related as opposed to retirement income related. Just a clarification that I think often gets glossed over in this debate. And then

The second is, that alone does not fix the future financial problems. And factcheck.org from the Annenberg School at the University of Pennsylvania is doing a good job of sort of analyzing this Social Security debate. And you might want to go to a report that they issued on March 8 which looks at that option and some other options and tells you how much of the solution it adds up to because whether you do it or not, it is important to know how much of the problem it fixes. And it does not get the whole job done.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Alabama, Mr. Bachus.

Mr. BACHUS. Thank you. I want to make two remarks about two Democrats. Mr. Frank said we are always quoted, fond of quoting dead Democrats. But Franklin Delano Roosevelt said in a message to Congress in 1935 that he envisioned the Social Security program including voluntary contributory accounts in which people could supplement Social Security. So he, actually, in that message to Congress, he, I think, had that thought.

Second, someone—there has been an argument over Daniel Moy-nihan, and he actually—what he said about personal savings accounts is they were a valid extension of Franklin Roosevelt's—he called it a valid extension or valid completion of what Franklin Delano Roosevelt initially envisioned.

Now, I want to go back. I have handed each of you all—or I am handing you some pages. And the first thing I would like to do, just in a bipartisan way, is I think the first thing we need to understand is we need to understand what the program was when FDR founded it. I think that that is where we ought to always start because we are talking about—we all, today, we have said this program, this is what FDR started, this is what he wanted, it was good enough for him, it was good enough for our parents and our grandparents. And what he started in 1935 was something where the average employee paid in 1 percent of their wages. And the employer matched that. Now, the first page I have handed you, it started out at 2 percent. Now, today, it is 12.4 percent. So it is six times the tax rate.

I do not think Franklin Roosevelt ever envisioned that we would pay one out of every \$8 that we made into Social Security when he started the system where every employee paid in 1 percent of his wages. I do not think he ever thought we would get up to \$1 out of \$8.

Now, the second thing that we had, in the system he started, there were over 42 workers for every retiree. I do not think Franklin Roosevelt ever envisioned—and back to that, talk about the 2 percent. We have talked about maybe supplementing. I think when

you were paying 2 percent or 1 percent of your wages into Social Security, you had some money, maybe discretionary. But for instance, the average teacher—on that second page I have got the average teacher, young teacher in my district—under Franklin Delano Roosevelt, she would have paid \$340 a year into Social Security. Today, she is paying over \$2,000 in and her employer is matching it. So she is paying over \$4,200 in. Under Franklin Delano Roosevelt's plan, she would have paid \$600 in. Now when she paid \$600 in, she could have gone out, I think, and taken some of that other money. But she is paying—there is \$4,200 going in for her.

Now, the next chart, as I said, was—that is the one about there were 42 workers. Now, if we go to 45, there were still 42 then. But at one time, there were more than that. Today, it is down around three according to this chart. And I am going to introduce all of these into the record. And we are headed, as you can see in this chart, when our children, before our children retire, we will be down to two, two workers for every one. I do not think Franklin Roosevelt ever envisioned that there would be one retiree for every worker.

And the third thing I do not think he ever envisioned—maybe I would not—this maybe is not true—is that, at the time he started Social Security, the average worker did not live to retirement age. The average worker did not live to retirement age. The average worker never drew Social Security. Today, they are living—and even in 1950, they did not. They still were dying a year before. As late as 1950, they were dying a year, the average worker died a year before Social Security.

Today, the average man is living 7 or 8 years past retirement. The average woman is living 16 years past retirement. And back then, almost all the work force were men, over 75 percent. Today, it is closer to 50 percent. So I would ask any of you all to comment. First of all, can we go up on taxes? I notice Mr. Kanjorski said that maybe we could raise taxes a little bit. Do you think that is what Franklin Roosevelt envisioned?

The CHAIRMAN. The gentleman's time has expired.

The panel may respond.

Mr. PENNY. I would respond to the tax question by just giving you another way of looking at this. If the taxes applied in 1935 when the program was first enacted had been adjusted for inflation over the last 60, 70 years, it is an interesting—it tells an interesting story, because in inflation-adjusted dollars, the maximum tax that any worker would be paying today would be \$900. In reality, the maximum tax that is being paid today is \$11,400, almost 12 times more.

Now, even if you factor out some of the additions to the program, survivors benefits and disability payments, which is about a third of total cost, that still leaves you with about \$8,000 in maximum taxes paid into this program today as compared against \$900 maximum on an annual basis when it was created. So we have done a lot with this program growing over time. And we have dealt with these higher promises and obligations of the program with a continually higher payroll tax. So I think you make a good point.

But the other point you make about these three statistics here—the number of workers per retiree, the longevity of the work force

today compared to then, and the taxes and what has happened with taxes over time—all three of these suggest to me that if we were to start all over again, let's pretend we did not have a Social Security program, and we were to sit down as a Congress to design one today, we would not design the program that we have. We would design something different than what we have, and we would try to do something that would actually inject some long-term savings on behalf of the individual into this program rather than leaving it all reliant on this kind of generational transfer.

The CHAIRMAN. Gentleman's time has expired.

Go ahead.

Ms. KENNELLY. Yes, Congressman.

President Roosevelt could not have envisioned the Internet either. I mean, things change. Things change. And you know what? We are living longer. And isn't it wonderful we are living longer? And if you look at these figures, that would not have taken care of us living longer. So we are paying in because we are living longer. And that is why I am here today to say that we have a Social Security system where we pay in so we have a retirement system. And we have just a basic safety net. That is all it is there.

What you are talking about today is IRAs and 401(k)s and all the rest, and that we should be doing. But these figures, they do not mean a thing because we are all living longer.

And I would like to talk to Mr. Scott for a moment.

Mr. BACHUS. Well, they mean a great deal, I would think, because of those very things. In fact, Alan Greenspan—you said pay-as-you-go system. It is a pay-as-you-go system. Alan Greenspan said that is unsustainable. Charles Schumer, last month, Senator Schumer, a living Democrat, said we all agree that it is unsustainable.

Ms. KENNELLY. 1983—

Mr. BACHUS. His quote was—

The CHAIRMAN. The gentleman's time has expired.

Mr. BACHUS. Nobody disputes that.

The CHAIRMAN. We have got to move on.

The gentleman from Kansas.

Mr. SIMPSON. How about me? Didn't I get—

Mr. MOORE OF KANSAS. Thank you, Mr. Chairman.

Number one, Ms. Kennelly talked and several have talked since her about the fact that there are now three parts to this program. One is for partial retirement benefits. One is for survivors. And one is for people with total disabilities. And I do not think anybody wants to leave those latter two groups out. I hope that is not the case.

Number two, I have no problem at all in concept with the President's proposal for partial private accounts. My concern to the people on this panel is borrowing a trillion to \$2 trillion over 10 years and adding it to our \$7.7 trillion national debt deficits of over \$400 billion a year, not getting better. I have six grand kids. I do not have nine. But I have six, and I am very very concerned about the future of my children, my grandchildren and everybody in this room, and this nation's children and grandchildren for the future if we do not change the way we are doing business here. I appreciate very much people like Senator Lindsey Graham, who is a

former colleague here, coming out and saying we need to look—to start thinking outside the box and start examining some other options. And Senator Graham, to his credit, has not just demagogued this issue. He has talked about raising the wage cap from \$90,000 I think to \$140,000. I am not saying that is the solution here, but I think we should start coming together, Republicans and Democrats, and putting aside partisan politics and thinking about what is right for our people and our nation in the future. And I very much appreciate people like Senator Graham who are willing to stick their neck out a little bit and say, we need to look at some different options.

You know, to me, it is almost disingenuous. We look at our Social Security system we used for the last several years, two decades, more, all of the money for some worthwhile things, like education and health care, and then some other things that people might have some dispute about, like Iraq and some further tax cuts. Then we say, oh, my gosh, what happened to all the money? It is all gone. We have a crisis. Well, we do not have a crisis, but I think we would need to change the way we are doing business. And I certainly recall that—we need to come together sooner rather than later and start to address it and find some constructive means to solve this problem.

Maybe if we would have surpluses and Social Security, maybe we should stop spending those on everything else and start paying down debt or doing something different that will at least put future generations in this country in a better position financially to respond to, because what we are doing right now, what we are doing right now is using all of this Social Security money, again for some worthwhile things, but we are charging this to the future of our kids and grandkids, and we are going to say to them, you have to pay it back. And I say that is grossly, manifestly unfair, and we should not be doing that. We are putting an almost unsustainable burden on the future of our kids and grandkids. I did the bill back in 2001, 2001, that would raise IRAs from \$2,000 to \$5,000. And Ben Cardin and Rob Portman said, could we make that part of our retirement bill? And I said, well, heck yes, because I knew it would pass that way. And it did. I think we need to start examining options like that, too, outside of Social Security so as not to increase the debt further, and encourage people through tax incentives to save in IRAs, 401(k)s and employer pension plans. I am going to—I could go on and talk about a lot of other things, but I guess I would like to just hear some reaction if I could.

Ms. KENNELLY. Well, let me answer you, Congressman. I would caution you, I would caution you very carefully about Senator Graham's proposal because there is a big difference between raising the cap to pay for personal accounts and raising the cap, you know, to do the traditional program, a huge difference.

Mr. MOORE OF KANSAS. I am not suggesting paying for personal accounts. I was talking about to try to extend the solvency of Social Security.

Ms. KENNELLY. I read every word that Senator Graham has said, and I think his idea is to raise the cap to pay for personal accounts. My idea, and not that—I do not have to do it anymore. You people

have to do it. But if you do raise the cap, it should be for the traditional program.

Mr. MOORE OF KANSAS. I agree with you.

Ms. KENNELLY. One of the pieces.

Mr. MOORE OF KANSAS. I agree. Other comments or reaction?

Mr. MOORE OF KANSAS. Other comments or reaction?

Mr. PENNY. I don't necessarily agree with that. I mean, frankly, if you are going to come up with some extra money, I think it ought to make room for personal accounts. I don't see how, long term, my kids are going to be better off if we simply try to prop up the status quo. They will end up paying more and getting less, which has been the history of this. Every generation pays more but doesn't necessarily get more, and I don't think we can keep going on like that. We have to start prefunding some of their Social Security. So if we are looking at new revenue, we clearly shouldn't be looking at it only to prop up the status quo; we ought to be thinking in terms of what it can do to build a nest egg for the future.

But, besides that, this committee's contribution to this issue can be this whole issue of, outside of Social Security and whatever we do for the long term of Social Security, is there a better job we can do to wrap around some retirement plans that really mean something to the average worker out there? Because, as I said earlier, 50 percent of our workforce gets all the way to age 50 without making any other plans or arrangements, and we can't go on as a society with that many people waiting too long to start saving.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from New Mexico, Mr. Pearce.

Mr. PEARCE. Thank you, Mr. Speaker; and I join others in thanking you all for your service.

In kind of a response to something Mr. Green asked, we have asked that question before we went to the District about raising the caps; and, frankly, the way the law is set up right now, you raise the cap, you also have to increase the payout. So it would require a change at the other end, too, to have much effect; and, in the end, you don't get much bang for your buck because there aren't enough people making a million dollars a year to really prop the whole system up. It is a piece maybe, and that is what the President, I think, says when he indicates everything is on the table as far as solutions.

Ms. Kennelly, I would ask you, as CEO of the National Committee to Preserve Social Security, my understanding of your testimony is basically that we can do about the same thing that you did in 1983, that we can do adjustments. Have you looked at the trustee's report that shows, you know, if we have decades and decades of retirees coming in and the costs are kind of easing up and easing up and then when the boomers start retiring 4 years from now the costs just escalate tremendously and we didn't have to deal with that escalation in 1983, we were dealing with—how do you resolve that tremendous increase in cost that you see on that curve.

Ms. KENNELLY. Well, the reason, sir—Congressman, the reason you have a surplus now to 2017 is because we realized that the baby boom was coming. I get such a kick out of it, that people were surprised the baby boomers were there. They were in their late 20s and early 30s when we—

Mr. PEARCE. What the trustee report shows as of 2042 is that all those IOUs, if you cash them in, they are gone. What does your—what is your recommendation for 2042?

Ms. KENNELLY. You are going to have very hard decisions. Social Security has always been a system with equity and adequacy.

Mr. PEARCE. And could I ask for your recommendations for 2042? In other words, I am assuming you are right. We will cash in those IOUs. I don't believe anybody up here thinks that we are not going to cash those in. But they run out. Even the IOUs are empty in 2042.

Ms. KENNELLY. Well, first of all, they don't run out overnight. People think they run out overnight.

Mr. PEARCE. Well, ma'am, for 2018—if I could reclaim my time, ma'am. Thank you.

In 2018, we go into a deficit. Your testimony mentioned that, and that is adequate that we should. In 2042, we have simply cashed in—maybe it is 2043, 2041—we have cashed in all those bonds. I am asking—

Ms. KENNELLY. Congressman, you went from 2017 to 2042. It doesn't happen overnight. It does not happen overnight.

Mr. PEARCE. And my question is, you said we don't need to fix it now. What would you do in 2043?

Ms. KENNELLY. Well, what you have to do is take a series of adjustments—that everybody in this town knows about—and you take those adjustments and cobble them together so we have a Social Security system that we can retire with.

Mr. PEARCE. And the trustees have said that it would take a tax of 20 percent on everyone's earnings to make those adjustments.

Ms. KENNELLY. No, no, no, absolutely not.

Mr. PEARCE. These costs they show—they show that if we incrementally increase the cap or incrementally increase the tax, that we only buy 3 or 4 more years liquidity. And these are serious problems. I think Mr. Moore has begun the discussion, and we need to sit down and lay the things on the table. We can't sit here and talk in politicized terms. We have got a real financial problem—

Ms. KENNELLY. And you shouldn't. Absolutely, you shouldn't.

Mr. PEARCE. I think the one comment that you have made that is exactly on track, and that is when you said, what is going to change. I think we, as a Congress, are going to have to decide—because, frankly, this idea of a safety net is one that is way over-used, that the idea—

Ms. KENNELLY. And you don't think the United States of America should have a safety net?

Mr. PEARCE. No, ma'am, I am saying we do. But you are the one who is saying it should only be a safety net, and in fact it is the only safety program that many Americans have because they view themselves completely at the trust of the United States.

Mr. PENNY. If I could jump in quickly—

Ms. KENNELLY. Let me show you what your colleague put in. This money is going into the Social Security—

Mr. PEARCE. Mr. Penny, if you would like to address—

Mr. PENNY. Well, I would just like to speak to the options that are out there, because my colleague, Ms. Kennelly, referenced that lots of people are talking about these options.

These proposals are being analyzed by an organization that is outside the political realm. It is the Annenberg School at the University of Pennsylvania. They have a site called factcheck.org, and they have analyzed all the options that Ms. Kennelly's organization and the AARP and other groups have sort of implied but not officially endorsed. And they don't get the job done——

Mr. PEARCE. They don't get the job done.

Mr. PENNY. They add up all of these options, and they fall short of fixing the program for the next 75 years, and none of them proposes any sort of solvency beyond the 75-year window.

Mr. PEARCE. That is my point, and that is a very difficult discussion.

Ms. KENNELLY. Well, private accounts makes it worse. You take the money out of the system.

Mr. PEARCE. Actually, you said, "What is going to change," and I think the only thing that can change is the mindset of America. They would have to change the way they view the safety net.

Ms. KENNELLY. And, Congressman, that is what we have—we have a totally philosophical conversation going on——

Mr. PEARCE. That is the absolute truth.

Ms. KENNELLY. Do you want to have the system that we have had, or do you want to have a new structure? That is the whole discussion that is going on.

Mr. PEARCE. I think Mr. Simpson has said it fine, that we are going to protect the seniors while we try to figure out some way to wiggle out of this problem.

Mrs. BIGGERT. [Presiding.] The gentleman's time has expired.

Mr. PEARCE. Thank you, Mr. Chairman—thank you, Madam Chairman.

Mrs. BIGGERT. The gentlewoman from New York, Mrs. McCarthy, is recognized For 5 minutes.

Mrs. MCCARTHY. Thank you, Madam Chairman.

Well, I am glad we have solved all the problems this morning, haven't we? Where are we? We are the same today as we were yesterday and will probably be the same way.

Listen, real life. We talk about people saving. I worked hard all my life. My husband worked hard all his life. We thought we had money. Unfortunately, the company he worked for went bankrupt. We lost about \$350,000, what we had put in there. He was 49. I was 48. Okay, we panicked.

Now I am a saver. I come from a family that came from the Depression. I always believed in putting \$10 away every week. Here we are. I will be dealing with a son that is probably going to be on permanent disability down the road. Certainly, I am a widow. I got here. I heard about this Thrift Savings, and I started maxing out as soon as I was allowed.

We are talking about, if we go with these private savings account, a thousand dollars a year? Is that something along that way, at a certain percentage? Well, I have maxed at \$10,000 the first couple of years. What is it—we are up to \$14,000 because I am over

50. I am still not going to have enough money when I retire. I mean, that is what it comes down to.

Now I live in the Northeast. What I have through savings, hopefully, if the market comes or stays, and I just switched over to all bonds because that is where I am supposed to be at this age, with all of that—and the pension, from what I understand, that we get from this place is not going to be terrific, and my Social Security, which I am going to be guaranteed to have if, hopefully, I live into my 80s, no guarantee on that. Even with that, it is not going to be enough.

This committee and what this Congress should be doing is how are we going to get people to save? How are we going to teach people to save? Social Security will never sustain any of us. My parents, unfortunately, came from the workforce. They worked very hard. That is all they had, was Social Security. Now if they had lived longer than they did, believe me, the children would probably have to support them, but it kept them out of poverty.

For someone like myself, I am single, it is going to be part of my whole plan. My girlfriends, who basically have always worked all their lives, unfortunately never in a high-paying job, I told them, 62 start taking Social Security. It is going to help them a little bit because they will never make over what the maximum would be to affect their Social Security.

We have a problem, but the problem is we haven't seen a bill. We don't even know what is out there. We haven't come up to any solutions, and that is a shame because there are millions of me out there—and there are millions of me out there. And I will do what I can to certainly protect the younger people like my son, who is only 37, like I said, who will most likely be on permanent disability somewhere down the road, maybe sooner than what we thought.

Should the government do this? Well, I think the government has a responsibility to make sure that people aren't living in poverty. I feel very strongly on that. And the truth of the matter is the majority of us, as Americans, work our tails off all our lives, and we do. We are not asking for anything.

All I am saying is I would like to stay in the house that I have been in since I was 5 years old and stay on Long Island, but even with working and saving and putting money away every single year, sacrificing even now, I am probably not going to be able to do it. And that is a shame, but that is the way it goes for us that are in middle-income families.

What are the solutions? I can't give you the solutions because those smarter than me—you know, you can offer solutions, but unless both sides start talking and sit down and say how we are going to do it—I happen to think Social Security should be there. I don't know how we are going to save it, but we should. But we should be talking about how are we going to get these people to save so we have something, like myself.

Mr. PENNY. And I think you started with the common ground. I think both sides of the aisle want to make sure that those that are disabled are adequately covered, that survivors get some sort of a benefit through this system, and that for all workers, especially those that don't earn a lot, that we have an adequate safety net.

I think that is the common ground. I don't think either side disagrees on that, and I think that is where to begin the debate.

I can relate to this in personal terms, as you have related to this in personal terms. My youngest brother is multiply handicapped, he is on disability, so I know the importance of that program. My mother, because my father died young, is now retired on a Social Security check and nothing else. I don't know how she makes ends meet. So I understand the importance of the safety net.

But I think that is where you begin the common ground. There is a lot of room to disagree about what we ought to do above and beyond those basic elements, but I think that is a common ground that both Republicans and Democrats ought to be able to join hands together and work on.

The other, though, is your point about saving and how much you have to set aside now to get ready for retirement. I was somewhat at the same point. I didn't start saving seriously until I was in my late 30s; and, because of that, the amount I have to set aside every year is a lot more because I have only got a couple decades for this money to grow and earn for me. But had I started when I was 18, a much smaller amount on an annual basis would have put me in a much better financial position today, and I think that is the virtue of thinking of reform in a way that gets people saving earlier. And right now we are not doing that.

Mr. SIMPSON. May I just say a word—

Mrs. BIGGERT. The gentlelady's time has expired.

Mr. SIMPSON. If I can just say a word? I have been very quiet. I have been leaping forward. I crouched.

Congresswoman McCarthy, you are so correct. All of us have that amazing thing in our background. Our wives or our spouses—and my dad was a United Mine Worker. He was a union guy and then went to law school, and after he didn't think working in the mines would be what he wanted to do.

But, anyway, the real issue is this. We all agree that the system is unsustainable. That is the word. But to get rid of the babble I would go to the trustees of Social Security. I always went back to them because I respected them. Bob Reich, Robert Rubin, these are not Republican nuts, these were people who were telling us this. All you have to do through the years is go back and see what the trustees of the system were saying, a really wonderful group of people. And you can scoff at these numbers, but these are real numbers, whether you like them or not. The Congressman has—he has presented them. They are not babble. They are real.

The life expectancy was set—the retirement was set for 65 for one solid reason, because the life expectancy was 57. It was a Ponzi game in that sense. They knew there would be reserves because the life expectancy was 57, and the retirement was 65, and they thought it would never change.

Well, things have changed. And I have no desire to go back and take out the things that were never supposed to be in Social Security. Disability payments, payments to children under 22, that was never intended in the original package. It was for the wage earner. And all the stuff came later.

Only 7 percent of the American people make over 75,000 bucks a year. So you are not going to get what I was hoping to get when

I tried to lift that lid over \$90,000. They said, well, let me show you the figures, and they don't get you there. Even if you took it completely off, the revenue lasts about 2 weeks.

But, anyway, doing nothing is unsustainable. Pay attention to the trustees and trust them. And I will remain forever puzzled how groups like the AARP and the committee that Barbara represents, 4 million members, presenting no alternatives whatsoever except cobbling. Cobbling is out of the picture. Don't point your finger and say, you do it. The groups that are playing in this game know that in the year 2017 something will happen. They know that the IOUs will be called. They know in 2042 that it will pay out only three-fourths instead of—and they are going to do nothing except say, we have time.

Let me tell you, I was here from 1979 to 1996, and we never did a thing except in 1983. And we tried in 1993 with a bipartisan commission and failed completely because of the shrieking and howling that went up. They have no alternative, nothing to present, just keep the membership up, get them alarmed, spook them up and keep the dues paid.

Mrs. BIGGERT. Unfortunately, time has expired—

Ms. KENNELLY. May I respond?

Mrs. BIGGERT. We have another panel to go.

Mr. SIMPSON. She certainly should respond.

Mrs. BIGGERT. Very briefly.

Ms. KENNELLY. Can I tell you something? I sit here as a woman who absolutely thinks—I thank the President of the United States, I thank President Bush for bringing the attention on this whole problem. I thank him for letting us all know that by 2017 more money will be going out than coming in. I think right now all of you should solve this problem. I do not think you should do personal accounts. That is a whole new structure. What I do think you should do is correct the situation, and you can do it.

And, sir, my dear friend, Senator, we are not saying do nothing. We know how difficult these people are going to have to make these decisions. I made them in 1983, and they can make them now. But don't say I say do nothing.

Mr. SIMPSON. What alternative—

Mrs. BIGGERT. The gentlewoman's time has retired.

The Gentlelady from Florida, Ms. Brown-Waite, is recognized for 5 minutes.

Ms. BROWN-WAITE. Thank you very much.

You know, I have the highest number of Social Security recipients of any Member of Congress. I have got a quarter million of them. And as I talk to my seniors and have town hall meetings, I tell them what I want to accomplish. I have a mother-in-law who only has Social Security. I want to make sure that my grandson isn't taxed so much that all he will have is Social Security, whether it is a Social Security of today or whether it is a revised amount. I want to make sure that he has the ability to invest. And if all we do is the same old, same old, then he will be taxed so high that he won't be able to invest in anything.

Ms. Kennelly, if you don't support personal retirement accounts, the trustees have said there are only three ways to maintain solvency: the payroll tax would have to be increased, benefits would

have to be reduced, or \$4 trillion will have to be transferred from general revenue to the trust fund, which really means that there will probably have to be a tax increase. Which does the national committee prefer?

Ms. KENNELLY. Well, Congresswoman, I love meeting you. I haven't met you before, and I know that you have the highest number of older people over 65, and I know what you are going through. But what I want to say to you is personal accounts makes the situation worse. Solvency—the President has agreed that solvency is not being addressed. If you in fact do personal accounts, you make the solvency problem worse. It brings it closer. And benefits have to be higher. You have to borrow more money. So personal accounts is not the answer for your people, I am telling you.

Ms. BROWN-WAITE. Well, first of all, the majority of my people, the 250,000, are already on Social Security, and their Social Security benefits would be intact. There is no proposal at all to reduce Social Security benefits for those receiving or those near—55 being, quote, near. And I think that is a safeguard that Americans need.

I also put in a bill that would say you cannot have any budget action that would reduce Social Security benefits for people already receiving it—

Ms. KENNELLY. You are absolutely right, Congresswoman.

Ms. BROWN-WAITE. And when you say that you thank the President, I want to make sure that you are not thanking the President because it gives you great opportunity to go out and frighten seniors out there. Because, quite honestly, I have read some of the material, and it does frighten seniors.

Ms. KENNELLY. Congresswoman, you don't have to frighten seniors. You don't have to. They are frightened already.

Ms. BROWN-WAITE. They are frightened by the literature that is sent out by certain groups, including yours. You cannot tell seniors that their Social Security is going to be taken away from them. It is not, plain and simple. Do we agree on that?

Ms. KENNELLY. We agree on that, Congresswoman.

Ms. BROWN-WAITE. Would you put that in your next publication?

Ms. KENNELLY. I agree on that. But what I am trying to tell you, that my front line of support against personal accounts are people—I am a grandmother—I don't know, maybe you are a grandmother—

Ms. BROWN-WAITE. I am a grandmother. I explained my benchmark.

Ms. KENNELLY. The point is, by the President saying that he won't cut anybody's benefits 55 and over—and the senator mentions that—that is all fine and good. But most grandparents understand the accidents and vicissitudes of life, and they understand that maybe their children and their grandchildren are going to have to need the traditional protection of social insurance. That is all I am saying.

And I am not scaring anybody. Can I tell you? You don't have to scare anybody these days. They are scared enough.

Ms. BROWN-WAITE. Well, certainly some comments and proposals that are mentioned in your mailouts certainly don't help matters any at all, and seniors do become frightened.

But I still haven't heard which you prefer. I mentioned what the Social Security Trust Fund has said that would be options. Which do you prefer, the tax increase, as you had previously voted for, or reducing benefits, or transferring money from general revenue to the trust fund, which is going to mean a tax increase?

Ms. KENNELLY. Congresswoman, as I started out my testimony today, I don't have to say that anymore. I did it in 1983. I took those tough votes, and you are going to have to take those tough votes. You are going to have to take those tough votes. I only say I think the traditional program is better than the new structure that the President is presenting, personal accounts. We disagree. It is okay.

Ms. BROWN-WAITE. When I talk to non-seniors in my district, they tell me—my own children tell me they don't believe Social Security is going to be there for them. So the comment often is I will take reduced benefits if I can do some investing on my own, something similar to what you, mom, and you, Ms. Kennelly, were able to do through the Thrift Savings Plan.

Most people do not—most people—our children and grandchildren do not believe Social Security will be there for them. As a matter of fact, your own Web site says that, even after 2041, without any changes, the trust funds will continue to pay seventy percent of the benefits. That is a benefit cut. Seventy percent of the benefits is a benefit cut.

Ms. KENNELLY. That is a fact. The trustees tell you that.

Ms. BROWN-WAITE. Well, I think you are selecting facts that support your argument.

Ms. KENNELLY. That is what you are arguing. I never said that.

Ms. BROWN-WAITE. That absolutely is what the—

Mrs. BIGGERT. The gentlelady's time has expired.

The gentlewoman from New York is recognized for 5 minutes.

Mrs. MALONEY. I welcome the panelists and thank them for their public service.

Social Security is very special to New Yorkers. It was created by President Roosevelt and Robert Wagner and Secretary of Labor, Francis Perkins, but the only one quoted today and is repeatedly quoted is the great senator, former senator, from New York, Senator Moynihan. I remember him saying, thou shall not purloin pension funds, and talking about preserving Social Security. So I called up his daughter Maura and asked her to get to his papers and get them to me. She sent me an article that she published entitled, Don't Take Senator Moynihan's Name in Vain; and I ask permission to place this article in the record.

Mrs. BIGGERT. So ordered.

[The following information can be found on page 123 in the appendix.]

Mrs. MALONEY. And in it—I just want to quote one line. She says, President Bush and others quote my father, but they fail to clarify that Moynihan proposed individual accounts as add-ons that would supplement Social Security, not as carve-outs that would replace the funds.

Now I, for one, would follow his lead on that. I would support an add-on. But the debate that I see is the one between—and the big difference between the two parties is really the problem of sol-

veny. If they would take the private accounts off the table or treat them as add-ons, as one of the economists for the Republican party, Hubbard, said they might over the weekend—but as Greenspan testified, as the President has testified, the present plan with the private accounts doesn't do anything to address the solvency of the Social Security plan, which is the Democrats' main concern. We want it solvent. In fact, it makes it worse. It would make the trust fund insolvent 11 years sooner, in 2030, not 2041; and that is the effect of the private accounts.

Again, I would support Senator Moynihan's support for private accounts as add-ons for the fundamental structure of Social Security.

Now I would like to ask Barbara Kennelly, since she used to advise me on Social Security—and actually, I believe she is the first Democrat woman to serve on the Ways and Means Committee and her specialty was Social Security. I would like her to comment on the fact that the Ways and Means staff has put out about the seventy percent tax on private accounts when they have to pay back the loan with 3 percent, using the President's numbers that the private accounts would make, what is it, 4.6 percent? That is a seventy percent tax on the private accounts. And, also, they report from the Ways and Means staff that the shifting of the President's proposal and the Republican-dominated proposal of shifting from wage indexes to price indexing, which they state—and other economists and CRS states—will reduce benefits by 40 percent in the next 20 years on top of whatever happens with this fight.

But I would like all of the panelists to respond to this report; and, again, I ask permission to place it in the record.

Mrs. BIGGERT. Without objection, so ordered.

Mrs. MALONEY. It was a study released by the Yale finance economist, Robert Schiller. He is best known for predicting the stock market bubble and burst in the 1990s. He released a study on the likelihood of an individual's winning or losing if they opened the kind of private accounts President Bush has proposed to replace Social Security's guaranteed benefit over time. His study focuses on the rate of return for the private accounts and the likelihood that investors would make enough in their accounts to pay the privatization tax and still have money left over.

Professor Schiller found that 71 percent of the time account holders would lose money. That is, their accounts would not even earn enough to pay the privatization tax and have money left over. And more money would be deducted from their monthly Social Security checks to pay the privatization tax than they had in their accounts when they retired. And given that workers would have little left in their accounts after paying the privatization tax, it is extremely unlikely that the accounts would be able to make up for the additional mandatory benefit cuts that accompany privatization, which would reduce benefits by more than 40 percent for future workers.

I would like comments, starting with Barbara Kennelly, who served on the Ways and Means staff.

There are many, many problems with these private accounts. If you want to have them, do it as an add-on. But when you have leading economists saying that you are not going to be able to pay the privatization account tax, it is making matters worse, then why

in the world are we doing this unless someone wants to destroy Social Security as we know it?

But, Mrs. Kennelly, if you would respond; and other members of the panel, if they would like to respond.

Ms. KENNELLY. Thank you, Congresswoman.

Yes. You know, I hear private accounts are voluntary. They are about as voluntary as a shotgun wedding, to be very frank about it.

You have two series of cuts. And we don't have the President's plan. I admit that. I know that. But what we do know, as the President told us, that we can look at a blueprint of the second commissioner's plan—commission's plan, and in that plan everybody gets the cuts and their beneficiary. But then, having had the cuts—and that is where the money is, by the way. When you go from wage to price, that is where the money is, and that is where you get the big money, and that is why everybody gets the cuts, not only those that choose but also the disabled and others.

But then what we have been able to foresee or look at is that when you go into the personal account every dollar you put into a personal account gets deducted from the guaranteed benefit. So, once again, there is a second round of cuts.

Then what they say is you are going to have to pay 3 percent on top of what comes out, inflation, because you are taking a loan from the government is exactly what you are doing. So, I mean, I don't understand this. I really don't understand why we are doing these personal accounts, because it is a situation where you are dismantling Social Security, but, more than that, the American people aren't going to get a very good deal.

Mr. PENNY. Madam Chairman, if I can respond quickly.

First of all, in reaction to your reference to Senator Moynihan, he was the co-chair of the President's commission. It is a 250-page report. His name is on it. It was a unanimous report. And it does include recommendations that include Social Security as part of, not simply as—or as personal accounts as a part of, not simply as an add-on to the traditional program.

Secondly, your reference to the—

Mrs. MALONEY. Did the report include it as an add-on also?

Mr. PENNY. One of the recommendations did; two did not. So check the report and look at the totality of the report which sort of lays out the arguments that undergirded our work and led us to some of the conclusions we made.

Secondly, just to get the solvency, which is this longer-term problem beginning beyond the trust fund, let's assume the trust fund is there and we redeem it somehow. You have got a program that can only provide about 72 percent of the promised benefits beyond 2040. And so, yes, there are some recommendations in the President's commission report that deal with how we keep the program financed for the longer term.

What I want to clarify is that you can reject all of these recommendations, but you have got to replace it with something else. So you can either do it on the benefit side or the tax side or a little of each. All we are laying out is one or two or three different ways that you can get there. And if you want to attack all of those ways,

at least admit that your alternative is going to have to raise the same amount of money over time.

Thirdly—and here is where the personal accounts really do come into play—with these changes, which would be agreed to ahead of time as workers in the workforce would agree that in exchange for their personal account they would take some reduction in their basic benefit, that is a front-end decision. But every calculation that the Social Security actuaries made for us demonstrates that for low- and middle-income workers they end up doing better in total benefits at the end of the day than they would under the traditional system. So you have to look at this as a total benefit package.

The other thing is this keeps the system solvent for the long term, whereas all these other cut-and-paste approaches still leave us with long-term insolvency in the system. If you are going to do this, do it once and get it done with. Don't just tinker with it every 20 years, as we have done in the past.

Mrs. MALONEY. A fact check. The CRS study of March 31, 2005—

Mrs. BIGGERT. The gentlelady's time has expired.

Mrs. MALONEY.—show that the fallback can effectively reduce total benefits 33 to 54 percent—

Mrs. BIGGERT. If you would like the senator—

Mrs. MALONEY. The purpose is—Congresswoman Biggert, we work very well together—is to get information and to study and to understand what is going on. If you hear something that you think is inaccurate and you have a CRS study that says the opposite, I think it serves the benefit of all of us to have the study put in the record so that we can all study it. I am not trying to be partisan in any way, one shape or the other, but this says that these benefits would be cut 35 to 54 percent, which is contrary to what he says.

I know Mr. Penny. He will read it. He will read Schiller's report because he is thorough. I served with him, and I have great respect for him. But if we are going to share information, we should have the opportunity to get it in the record and share it. Because we need to come together and solve this. And I for one would come together at any table if you take privatization off the table because of the reasons that we put forward and do it as an add-on, as the senator did in his private writings.

I yield back, and I request permission to put these three studies in the record.

Mrs. BIGGERT. Without objection, so ordered.

Mr. SIMPSON. May I?

Mrs. BIGGERT. Senator.

Mr. SIMPSON. I don't want to get into this, but I have to.

I served with Pat Moynihan for 18 years. He was my mentor on the Environment and Public Works Committee. He was my mentor on the Clean Air Act, and on Social Security. I chaired the subcommittee. He would come—and I can assure you as honestly as I can that he did talk about personal accounts. Because where were all of these groups when Bob Kerrey and I—a Democrat—put together a package with personal investment—we called it PIP, per-

sonal investment plan. I never heard anything. Where was the hue and cry then?

Let me tell you, I cannot believe what I am seeing in America with this. Doing nothing is the path to insolvency. If personal accounts will cost you \$3 trillion, \$5 trillion, do you know what the cost is out there if you do nothing? It is horrendous. And what is being proposed by everybody? Nothing. Except the only two that really work, raise the payroll tax or cut the benefits. Quit crapping around. That is how you get there. If you really want to get there, that is how you get there. Any other stuff is babble into the vapors.

But I can tell you, after this and listening as I have in America, I believe if you took personal accounts completely off the table that that would solve nothing in this atmosphere because it has become so politicized. Nothing.

Mrs. BIGGERT. The gentleman from Georgia is recognized for 5 minutes, Mr. Price.

Mr. PRICE OF GEORGIA. Thank you, Madam Chair.

I want to welcome each of you—I guess I should say to congratulate you for your patience and your tolerance of your backside for sitting there for this period of time. There is great advantage for asking late, there is also great disadvantage because you want to respond to everything that you have heard. But let me just make a few comments, and then I have a question about process, not policy.

Just by way of potential clarification and to respond, I guess, Republicans fiercely, fiercely are dedicated to preserving Social Security. We are fiercely dedicated to preserving Social Security.

Where did we come up with this ridiculous idea of personal accounts? I would draw your attention to Mr. Penny's statement where he said in President Roosevelt's 1935 message to Congress on Social Security he outlined a vision for ultimately extending the program to include, quote, voluntary contributory annuities by which individual initiative can increase the amounts received in old age, unquote. So it is not a new fabrication or something that we came up with out of thin air.

There was a comment early on about what do we call it? Is it a crisis? The President calling it a crisis. The first time I heard crisis in this was in 1997 or 1998 from President Clinton who said, quote, it was a looming crisis, unquote. So I think that it is important that we quote individuals appropriately and attribute appropriately.

Ms. Kennelly, you mentioned that personal accounts are not a good deal. Well, Social Security right now is not a good deal. The return is less than 2 percent. So Social Security currently is not a good deal.

I have had all sorts of meetings in my district. I had a huge summit this past week where I had a hundred of the brightest high school kids in my district come together and talk just about Social Security for an entire morning. Every one of them favored personal accounts because they understand. I asked how many folks thought they were going to get Social Security. Not a single hand was raised. They understand.

Now I want to put policy aside, because facts are tough things. You all have had great experience on the Hill here and great expe-

rience with difficult issues. I would like to ask each of you, how would you recommend that we proceed from a process standpoint? How do we get through the poison that is obviously here to move toward what I believe must be a bipartisan agreement as we move forward? And I would like to hear from each of you.

Ms. KENNELLY. Well, I will start, Congressman.

When you say Social Security is not a good deal——

Mr. PRICE OF GEORGIA. I would like to talk about process.

Ms. KENNELLY. But one-half of people over 65 would be in poverty level——

Mr. PRICE OF GEORGIA. I am interested in process.

Ms. KENNELLY. What I have been saying all morning—and I have been here for two and a half hours or something like that. What I am saying is we are having a debate about what to do about Social Security. Should we take the traditional program and do what we have done—and I differ with Congressman Penny that we should finish it now. We have always had to adjust Social Security. We have adjusted it many, many——

Mr. PRICE OF GEORGIA. Do you have any thoughts about the process, about how we get to a solution?

Ms. KENNELLY. Yes. You take the process, and you look at what you have to do. There is numerous ways that you can adjust the system. You don't take big clumps. You take little adjustments. And you can do it. You absolutely can do it.

Mr. PRICE OF GEORGIA. Thank you.

Ms. KENNELLY. And don't forget by the way, sir, that we have right now—and the senator gets upset about this, but you have time to do this. We should do it this year. But we should adjust the system so that we get ready for 2017 when more money is going out than coming in, and we can do it.

Mr. PRICE OF GEORGIA. Thank you.

Mr. PENNY. Well, I think the first thing, in terms of process, is to perhaps, without taking personal accounts and a long-term fix off the table, perhaps just talk about at the appropriate committees what it would take to prop up the status quo over the long term. Because what you will find is that it is a bunch of ugly stuff. Some groups will be more inclined to just raise the payroll tax a little here and a little there, a little more later. Others will actually talk about some benefit reductions that might be appropriate. Some might be means tested. Some might be more generalized.

But there are no easy options. That is my point. And I think if you talk about what it takes to fix the current system, what it will convey to people is that, first of all, even that isn't easy; but, secondly, almost all of those options are a worse deal for younger workers.

So I think at that point it then leads into a discussion, what can we do at the end of the day that at least gives these younger workers the opportunity for something better than simply benefit cuts and tax increases? And I think it leads you back to personal accounts as part of the mix.

The second thing I would say is never take anything off the table because I don't think you are going to get a bipartisan consensus unless both sides are willing to look at everything the other side

has to bring to the table. So it is a matter of process. I think that is important as well.

Mr. SIMPSON. Madam chairman, let me just say when we had the commission with Danforth and Kerrey, we had an Internet computer game that said, okay, what do you want to do to make Social Security work? Send in your recommendation, and we will give you an idea how that feels. Not one thing came out that didn't raise the hackles of one or two or 20 groups. It is all sheer pain, sheer pain.

I can say to you—you asked the question—your only hope is a bipartisan commission in this atmosphere. That is your only hope. Nothing else. Nothing else. But if you are going to see people reject one thing, their favorite thing—that is how we never did a Clean Air Act—members would say: I won't give up this under any circumstances; I won't do this—you have to get in a room and finally say, okay, put it all out there, let's quit this stuff.

But I tell you, I am going to be very disappointed in a group of 38 million Americans who won't present a proposal of the AARP, and a member of that—I am deeply disappointed in Congresswoman Kennelly's group of 4 million people who won't present an alternative and they never will because they won't ever, ever take the heat and lose members, period.

Mr. PRICE OF GEORGIA. Thank you.

Mrs. BIGGERT. The gentleman's time has expired.

The gentlelady from Wisconsin, Ms. Moore.

Ms. MOORE OF WISCONSIN. Well, thank you, madam chairman; and it certainly is a privilege to be here before such a distinguished panel.

I will get right to the point. I think the gentlelady from New York really raised some of the questions that I had, and I can start right away with Congressman Tim Penny.

You stated on page 4 of your testimony that the Social Security actuarial data that you were looking at says that folk, even low-income people, would be better off with the personal accounts than in the current existing system. I am asking you, first of all, did this actuarial model include the switch from the wage indexing to the price indexing and did it consider the 3 percent privatization tax? Is that part of the assumptions which indicate that the lower-income people would be better off?

Because indeed, as Mrs. Maloney pointed out, the CRS analysis says that, literally, the Social Security benefit would disappear with those two changes combined, which is what we perceive to be the President's proposal.

You know—and without going into a long-drawn-out discussion of my own personal background, you are actually looking at the face of a person who would be most hard-pressed by major—by the loss of a Social Security system. I am extremely guilty of not saving every dime I can rake and scrape. I spent it on feeding and housing my three kids. And of course nobody told me to have any kids, but being a woman I had them anyway. So our parents and so on—and, as a Member of Congress, of course I have joined the Thrift Savings Plan.

I do agree that we need to save more. I do agree that Medicare, Medicaid are the real looming crises, which if, Senator Simpson, we

are going to look at European models, we ought to look at having some universal healthcare to try to get some cost efficiencies in those programs versus destroying Social Security.

But my question is really for you, and the others may add. Thank you.

Mr. PENNY. The short answer to that is, yes, the benefit adjustments or the benefit reductions that were part of the commission's report were taken into account when these estimates or projections were prepared for us. And they do demonstrate that, for the lowest-income workers, they end up being better off under the new system than they would under the traditional system, with all of that taken into account.

Ms. MOORE OF WISCONSIN. With the price index.

Mr. PENNY. With all of that taken into account, yes.

And the other point is that we relied on the Social Security Administration actuaries to run the numbers on everything we did in the commission. So we weren't sitting there with our own little set of economists coming up with our own numbers. We relied on the government bureaucrats who have worked their entire careers in this area to come up with the numbers and put a number on our proposals.

The other thing—

Ms. MOORE OF WISCONSIN. Entirely different conclusion, so I—

Mr. PENNY. And I understand that, because even experts can come up with different assumptions about how they run their numbers. But we relied on the Social Security actuaries to run these numbers.

The other thing, which is little known of our report, is that we did increase the basic benefit for the lowest-income workers, those that stay at low wage all of their lives, and that is a little-known fact in our plan. But we lifted that benefit to a level that would assure that no one, if they live on Social Security and nothing else, would be receiving an income level that was below the poverty rate.

So you have got to look at this as a package deal, and I would recommend it. In addition to reading other reports about what the commission recommended, you should go to the commission documents and what the Social Security actuaries said about our report.

Ms. KENNELLY. Congresswoman, I would hope it was a package deal, because the assumption was there would be a 4.6 percent adjustment in inflation, and I am not so sure we can count on 4.6.

Also, don't apologize if you didn't save. None of us saved. Absolutely. But you talk about young people. We have heard about young people. None of us when we were young thought we would get old, let alone that we weren't going to be lucky. And millions of dollars have been spent on young people to see that they would not need Social Security. But I tell you, 4.6 percent inflation, Congressman Penny, I think that is very high.

Mrs. BIGGERT. The gentlelady's time has expired.

The gentleman from Minnesota is recognized for 5 minutes.

Ms. MOORE OF WISCONSIN. Madam Chair—

Mr. SIMPSON. I would respond. She asked a question. It will just take a moment for me.

I do hear you clearly, Congresswoman. Let me tell you how bad I am. There was a Social Security commissioner under the Republican administration who decided not to go tell the American people what was going to happen to Social Security. Moynihan and I went after her. I was in the majority. She said, well, I have a packet I am taking all over America to show how great Social Security is for young people. We looked at it and said, this is babble, absolute babble. And she would never answer our questions. She was dispatched, unRepublican—she was a Republican.

That is where I am coming from. This is phony bologna. And I don't care what party you are in. If you are going to go to young people and tell them they have nothing to worry about, that is bizarre, it is grotesque, it is sick.

Ms. KENNELLY. That is not what I said.

Mrs. BIGGERT. The gentleman from Minnesota is recognized for 5 minutes.

Mr. KENNEDY. Well, let me, first of all, thank all of you for being here for this extended period of time. We know it is a long period of time, and we appreciate you devoting the effort to be here as well as devoting the attention to really study the issues, because we need to have a firm debate.

I want to especially welcome my fellow Minnesotan, Congressman Penny, who has been a strong, independent voice on this issue and many other issues. We appreciate his dedicated service and being with us here today as well.

I think we need a debate. I think there is a lot of confusion out there. But part of where I am getting a little confusion—and if I may ask you, Congresswoman Kennelly, you said that everybody over 55 was not going to be touched, but then you also just said everybody gets cut. Now I am—which is it?

Ms. KENNELLY. No, I absolutely agree with the President. Anybody 55 and older does not get cut.

Mr. KENNEDY. So everybody doesn't get cut—

Ms. KENNELLY. No, anybody 55 and older does not get cut. What I am saying is those 55 and older are worried about those younger.

Mr. KENNEDY. Now one of the issues we haven't really had a chance to dialog, and I will just mention the commission didn't get a chance to really wrestle around, was the disabled, and you just made the statement that the disabled got cut. I don't—I haven't seen anybody's proposal that cuts the disabled, and clearly I have no intent of allowing any of the disabled to be cut. What are the options? How do we make sure that in the end we get to that resolution in whatever is proposed here?

And I just maybe put that out to each of you. What thoughts do we have to make sure—

Ms. KENNELLY. Well, what I said was that the Congressman's commission didn't address that. They said they only met 6 months, and they couldn't address it.

What I am saying is when you are talking about personal accounts, you are putting money into personal accounts, you have to grow those accounts. Now, the President says they will continue to grow up, and you will make more money. I just wonder how if you are 35 years old, you are riding home, get in an accident and you can't earn any more money, how do you grow that account? I

haven't heard any answer to that. I do know that with disability, Social Security pays. When you are disabled, they pay you for the rest of your life.

Mr. PENNY. I will speak to this, but not on behalf of the commission. I tried to be clear today when I am responding to something that grows out of my commission work and when I am not, and on this one the commission didn't come to any recommendations in that regard.

My own personal view is that you really have Social Security that is in two different pieces. We call it all insurance, and technically under law it is an all insurance program where one generation of workers pays money in with the intent to draw these benefits later. But most people think of the Social Security retirement piece as a retirement program, not as an insurance program. But we all understand the disability and the survivor's benefits to be an insurance program.

Frankly, when you think about insurance, it is to protect against something you hope will never happen. There but for the grace of God go I. I might need disability. I might be in a survivor's circumstance.

So I think really it is defensible to say that as we address Social Security's future we separate that part of the debate out. You might have a totally different approach to dealing with that piece of the Social Security system, and then we can isolate and have a different discussion about what we ought to do with the retirement piece.

Mr. SIMPSON. I would ascribe to that totally. The confusion comes from people not understanding what it was to be when it started. It was an income supplement. That is what it was, nothing more, nothing less. And from that we added to it because we are compassionate people.

To hear Democrats and Republicans saying that one side or the other is not going to protect the insolvency, I agree with the Congressman here, this is absurd. To get up and say that Democrats are the only ones that fiercely want to protect the solvency, hell, there are millions of us as Republicans that want to protect the solvency too, and you can't do it with the status quo. Everything that you are going to lose if you did this hideous thing of, quote, privatization is peanuts compared to what is going to happen on the out-years to young people.

Mr. KENNEDY. Well, I would just conclude by saying I think you are right, we all are committed to making sure Social Security is there for seniors. When my parents rely on it, we are going to make sure it is there.

And, Congressman Penny, you are right, there is added confusion with having two separate sort of objectives, the one of disability and survivors, which nobody wants to allow that to really change because we do want it to be there for us or our family or anybody we know if that comes, but we sometimes have some confusion. So I just thank you for being here. I would encourage everyone to try to approach this in a factual way so we can enlighten the public, as opposed to confuse the public.

Mrs. BIGGERT. The gentleman's time is expired.

The gentleman from Missouri, Mr. Cleaver, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chair.

Those that are kind enough to be here are probably interested in having lunch. I am assuming that you are normal humans, so you want to go probably—

Mr. SIMPSON. We do want to go—

Mr. CLEAVER. Senator, I agree with you. I think the only way we are going to come up with an acceptable plan for the solvency of Social Security is through some kind of bipartisan work. That is why I have wondered why the President has not invited into the White House the leadership of both parties and say to them and then say to the Nation, I am asking for a bipartisan plan to come out of Congress, and I would like for you to start on it immediately. I mean, I have been waiting on that to happen. Can you help me understand why it hasn't?

Mr. SIMPSON. I would say there are a lot of things that I am disappointed in with presidents I have worked with, and I have known 11 and worked with four—three—and I never agreed with all of them. I enjoyed President Reagan and President Clinton. I enjoyed the first President Bush, a close friend. I knew President Jimmy Carter. So I can only say I don't know why they don't do that.

I am disappointed when I see things happen where people aren't invited to the White House. I was disappointed when I watched this House for 40 years, where they just ate Republicans alive; and now I am disappointed when they eat Democrats alive. So that is me. I am a rather independent soul.

But I can tell you, you are going to have to do it. You are going to have to do it with a piece of legislation that says this Congress will appoint—will form a bipartisan commission consisting of—you will have your appointees, the President has his appointees. Just say it won't get done, and then just go ahead and do it.

Mr. PENNY. I would concur with the senator's comments.

But in coming to the table, whether it is the leadership being called to a discussion, which then grows into some sort of a negotiation, or whether it is a commission, it has to be done with the respect that both sides deserve, which is to say both sides are allowed in this process to bring anything and everything to the table. It can't be preconditioned that your ideas—I will only talk to you if your idea is off the table, or vice versa.

Mr. CLEAVER. But I think one of the things that Democrats are saying is that—I know one of the things we are saying is that we don't want to make the American public believe that privatization is a part of the fix. So as long as we are saying that we are in need of preserving Social Security by having privatization, we are not being quite honest with the public because that is not a part of it, of any plan that would solve our problem.

And of course someone—my colleague from Georgia said that President Clinton said there was a looming crisis, President Bush said there was a crisis, and that is not synonymous. Looming crisis and crisis are not synonymous.

But the point I want to make is I agree with you probably more than I disagree in terms of the need for us to sit down and come

up with a bipartisan solution. But I think one of the problems we are going to have is that if the public is told that privatization is a part of the solution then I think that runs away at one-half of the team needing to deal with the problem.

Ms. KENNELLY. Congressman, one of the most interesting statistics—and I don't know if the Chairwoman knows this—but in 1983 there were more Democratic votes in the House that voted for the solution and more Republican members in the Senate that voted. That is truly bipartisan, and I think that is where we have to go.

Mr. PENNY. If I might respond to your comment about whether everything ought to be on the table. It seems to me that there is some comparability between one side saying they will talk about a solution but we can't bring up taxes and the other side saying we will talk about solution but we can't bring up personal accounts. I think that there is no harm in having it in the mix. In fact, there may be a lot of reason in the final analysis to have it in the mix. Because a solution without personal accounts somewhere in the equation is essentially a solution that will rely on tax increases and/or benefit cuts, which to the next generation of workers essentially means pay more, get less. And I think personal accounts have a place in this debate.

I also would suggest that if you look at the various analyses that has been done about long-term solvency in the program there is something to be said for personal accounts as a way of replacing what you might have to give up anyway just to shore up the current system. So in some respects it gives the younger workers an opportunity to earn back what they otherwise might be losing in a basic benefit cut or losing through higher taxes that don't buy them any added benefits.

So, again, I just think there is no reason to leave that out of the discussion if you are going to come to the table and look at all options.

The last point is, you are right, Clinton said it was a looming crisis, Bush should have said it was a pending crisis. Because that change in terminology does acknowledge that we are that much closer to the crunch point and we need to think a lot more seriously about this issue or we will soon be in the crisis.

Mrs. BIGGERT. The gentleman's time has expired.

Mr. CLEAVER. Thank you.

Mrs. BIGGERT. Seeing no further questioners, the Chair would like to thank all the honorables for being here—Alan Simpson, Barbara Kennelly and Tim Penny—for just a spirited hearing and also one that gave us a lot of insight and a sense of history into this issue. We really appreciate you being here. Thank you very much.

Now I would like to welcome the second panel, if you would come forward and take your seats.

This is panel number two: We have Sheryl Garrett, who is the founding principal of Garrett Financial Planning, now Financial Planning Firm, headquarters in Overland Park, Kansas. Ms. Garrett is a certified financial planner, and for the past 3 years she has been named one of the top 25 most influential people in financial planning by Investor Advisor Magazine.

Next is Dallas Salisbury, President and CEO of the Employee Benefit Research Institute, a nonprofit bipartisan organization

founded in 1978 and focusing on policy, research and education on economic security and employee benefits.

Third is Hans Riemer, who is the Washington director of Rock the Vote, a not-for-profit organization founded in 1990 to engage young people in the political process. He is also the founder of the 20-30 Center of Public Policy Organization for Young Adults based in Washington, D.C.

We thank you for your patience. I know it has been a long morning. So let's proceed as quickly as possible.

Mrs. BIGGERT. We will start with Ms. Garrett, and you are recognized for 5 minutes.

STATEMENT OF SHERYL GARRETT, CERTIFIED FINANCIAL PLANNER AND FOUNDER, THE GARRETT PLANNING NETWORK

Ms. GARRETT. Thank you, Madam Chairman.

It is my extreme honor to be here and be part of this process. It is quite enlightening, to say the least.

As you mentioned, I am a certified financial planner. However, I have recently retired from working with individual clients.

I have received a lot of attention during my career for working with normal people, everyday rank and file. Some of the folks in this room earlier were mentioning ditch diggers and teachers and all those types. I work with all of those types. Very, very connected with individuals from all walks of life, and that is my claim to fame in the financial planning area.

Everyone has questions about their money at some time or another; and everybody deserves access to competent, objective financial advice on their terms. The popularity of this service model has been so great that in the year 2000 I launched the Garrett Planning Network to train and support other financial advisors in working with clients as I do. We now have over 250 members across the country, and growing rapidly, to help serve the needs of everyday people to answer those questions, to help them with what they need to do about financial planning. It is the mission of our organization to make competent, objective financial advice accessible to all people.

The role of the financial planner or the financial advisor is one of the most important and rewarding roles or jobs that I could ever imagine. We have the responsibility to consider all the potentialities and help clients consider all pertinent issues, the risks they might face, and what strategies they might have available to them. However, the majority of financial planning and smart money management decisions really aren't all that complicated.

There is only so many variables involved. One of the most important variables, we can spend less and save more now. Unfortunately, too many people don't believe that they have any control over the amount of money that they spend now or in the future. For most persons this is simply not true. We have much more control than we are willing to take on and enforce on our families or ourselves.

Former generations have had to do this. They could only spend what they had. There was no such thing as EZ credit. Most Americans spend at least 100 percent of their net paycheck. One of the

solutions to that is don't let it come home. Get it invested in that thrift savings account or that 401(k) or the Roth IRA before it comes out in the paycheck. That is one of the things that we have to do.

Spending less in retirement is another variable. Unfortunately, that is what most of us will be facing is spending less in retirement than what we are living on now. We are going to only have what we have saved, hopefully some Social Security, and possibly some kind of a company pension. We must make adjustments, just like everyone before us did. There are no other options.

Getting better returns on our investments is another variable that we all strive for. However, unfortunately, too many retirement plan participants take what they deem as an ultra conservative view and invest their money in hypersensitive, low interest rate money market type fixed income investments in an attempt at being conservative. And unfortunately, that is exactly the opposite thing that is happening.

Fortunately, there are excellent resources available on the Internet. One of my favorite is at TIAA-CREF.org where an individual can go in and determine what an appropriate asset allocation should be for them. There are wonderful tools out there at our disposal. However, everyone needs to have money invested for growth to offset the effect of inflation, and the younger we are the more important it is that we have money invested for growth.

Inflation is the biggest or one of the biggest risks that we individually face in our long-term financial security. We can not afford to allocate too much of our money to short-term fixed income investments. We cannot afford to remain ignorant or complacent regarding our financial futures. If citizens are truly aware of the lack of security in our current Social Security retirement program we will make adjustments to take care of ourselves in retirement.

In my planning work, clients under age 40, we count zero of Social Security in their retirement projections. For those individuals between 40 and 65 I discount that benefit by at least 50 percent and assume only a 1 percent cost of living adjustment.

I am 43 years old. By the time there is going to be some hard hit adjustments in this program, I am just entering into retirement. It is affecting me, not just my kids and grandkids.

The most important thing that we really have control over, one of those variables I mentioned, is working longer. It is the most significant and controllable variable that most Americans have at our disposal is how long we remain in the work force.

In 1950 almost half of men over age 65 were still in the work force. Today that number is less than 20 percent. We are saving less, living longer and retiring earlier. Why are we surprised that we cannot afford to maintain our standard of living in retirement when we spend as much time in retirement as we do in the work force?

Fortunately, one of the healthiest things that I am seeing is people are talking about working longer and talking about staged retirements. We have to be realistic about Social Security. Dramatic measures must be taken to ensure long-term solvency. Our citizens must recognize that living in the land of the free comes with responsibilities, responsibilities to care for ourselves now and in the

future. We are free to screw up and we are free to succeed. But we must be held accountable for our own financial futures.

Thank you.

[The prepared statement of Sheryl Garrett can be found on page 82 in the appendix.]

Mrs. BIGGERT. Thank you very much. Mr. Salisbury, you are recognized for 5 minutes.

STATEMENT OF DALLAS L. SALISBURY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, EMPLOYEE BENEFIT RESEARCH INSTITUTE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AMERICAN SAVINGS EDUCATION COUNCIL

Mr. SALISBURY. Mr. Chairman, thank you. It is a pleasure to be here.

I just note that one issue that was mentioned earlier is the issue of longevity. And my 91-year old father and 88-year old mother—the words must take care of themselves, they did things right. They saved, they annuitized. They sold their home on a reverse annuity mortgage for 20 years. They sold an apartment house on a 25-year mortgage. Regrettably, in quotes, they are still alive. And Social Security is what they now live on. And so the longevity aspect of this, along with working longer, should not be overlooked.

I was asked first to talk about the connection between financial literacy retirement security and Social Security reform. And I would simply note that last point. Risk is something that people need to deal with. The risk of outliving one's assets, the risk of living too long, the risk of poor health, of not saving, of excessive debt, of excessive interest expense.

Financial literacy for those that are lucky, like those that were here today, who have Social Security plus a Federal pension, plus the Federal thrift plan, frankly, they don't need to know much. Those who don't have those special benefits, who are low income, who don't have the capacity to save much at all, they need intense financial literacy and training. It is required for the present Social Security program and the knowledge of when I will be eligible for benefits, only 18 percent of Americans know that. How much the benefit will be, only 21 percent of Americans know that. And how to constrain spending to income to meet program needs.

Reform that includes individual accounts requires far greater knowledge than the American public has today. And learning from experience, from programs like the Federal thrift plan can help. Research has documented a number of approaches mentioned earlier today that would improve outcomes. Automatic enrollment, automatic contribution increases, pre-diversified investment options like life cycle funds, matching the contribution the individual is asked to make and someone to talk to when they need help.

Second, I was asked to address EBRI's involvement in another government initiatives on financial literacy. We joined with other organizations in 1995 in the public and private sector to form the American Savings Education Council. Those groups then joined together in that same year to create the Jump Start Coalition for Youth Functional Literacy. We worked with Congress in 1997 to draft the SAVER Act. Working with the Department of Labor, we launched Choose to Save national public service campaign in 1997.

For nearly 10 years we have worked with the ASEC government interagency group that comes together several times each year to coordinate efforts on financial education and financial literacy. National summits on retirement savings were held in 1998 and 2002 and presenting new financial literacy opportunity when another one is held by statute in 2005. The FCC, OPM, DOD, the Federal Reserve, the Social Security Administration, the Extension Service and many more continue to hold investor education forums around the Nation and have done so for the last 10 years.

Now, as was mentioned earlier, the Financial Literacy Education Commission is completing its analysis and the formulation of a national strategy for financial literacy. FLEC has established a consumer resource web site, mymoney.gov and 1-800-mymoney number that allows individuals to request a tool kit of publication. Every Congress Member should urge their constituents to call that number. A new Choose to Save public service announcement will soon begin airing that urges Americans to visit mymoney.gov.

Third, you ask about the status of financial literacy programs and their relevance to retirement security and Social Security reform. Hundreds of public and private groups across the Nation are now working on financial education and financial literacy. School curriculums have been developed and are being delivered. Teach the teachers programs are taking place around the Nation.

The FLEC strategy should reinforce these efforts and provide a framework for increased coordination. No Child Left Behind will be adding financial literacy questions to exams and many school districts are already expanding what they teach our Nation's children. There is much more to be accomplished but much is already being done.

Financial literacy is a key to retirement security as it can move individuals to plan and budget, to save while managing credit and it can assure that they do not choose to retire before they have sufficient resources to allow security. Financial literacy is important to Social Security reform in the same way as knowledge of the program, its age provisions, its benefit levels and its options will be essential for decision making.

With financial literacy comes the knowledge that if you choose to save for your future, you gain freedom of independence. Out of that, we have often had the message if you don't want to work forever, you do need to choose to save.

I would conclude with three factual notes. In terms of prior discussion, the data does show that simply taxing all earnings in the economy would in fact provide 75-year financial solvency for Social Security. The Social Security actuaries say that that would provide 98 percent of financial solvency.

Secondly, that the Senator previously stressed, the issue of TSP and of change. I would simply underline in terms of financial literacy the issues of health care expenses and long-term care expenses, huge financial needs that there is a need for financial literacy education on.

Thank you.

[The prepared statement of Dallas L. Salisbury can be found on page 99 in the appendix.]

Mrs. BIGGERT. Thank you so much. And I would like to personally thank you for all you do. It is a subject that is very important to me and I think to the Nation.

Mr. Riemer, you are recognized for 5 minutes.

**STATEMENT OF HANS RIEMER, WASHINGTON DIRECTOR,
ROCK THE VOTE**

Mr. RIEMER. Thank you for the opportunity to present our views today. My name is Hans Riemer. I am the Washington Director for Rock the Vote. As an advocate for our one million members and supporters, Rock the Vote believes that all Americans can learn how to invest for their future.

At the same time we also believe that everyone should have a basic safeguard to protect them if they are unsuccessful with their personal investments. That safeguard, which is Social Security, should be sufficient to protect a middle class standard of living while at the same time lifting low income workers out of poverty. We make it a point to emphasize with young people that if you want a decent quality of life when you are older, then you must invest on your own by fully participating in pension, 401(k) and IRA type plans. Social Security will be a floor or a basic protection, but it is not intended to provide your entire retirement income.

You must save for your working life beginning at the youngest possible age. There is a world of difference, however, between the message, don't count on Social Security to be your only income, and don't count on Social Security at all. Many young people have come to believe that they should not count on Social Security for anything.

It is no mystery why they would think that considering the constant media reports about Social Security's impending bankruptcy which strongly implies there will be no money for future benefits and that Social Security Administration will have to close its doors.

Many advocates of privatization have also fostered this impression. Consider the remarks of President Bush who recently said without changes this young generation of workers will see a UFO before they see a Social Security check.

In fact, Social Security is not going anywhere. Since current workers pay the benefits for current recipients, the only way that the program would disappear is if there were no workers paying into it. Clearly that is never going to happen. While there is indeed a decline in the number of workers paying into the fund relative to beneficiaries, there are still more than enough workers to make ends meet.

If the goal of promoting financial literacy is to empower people to understand their personal financial situation and take action to improve it, a good starting point would be clearing up this unfortunate misunderstanding about whether Social Security is going to disappear.

According to the Center for Economic and Policy Research, an average income 21-year-old is promised nearly \$24,000 per year in retirement benefits from Social Security. After 20 years, that is \$480,000 in today's dollars. Now the shocking news is that even without changes for the entire lifetime of a typical young adult, Social Security has enough money to pay 70 to 80 percent of his or

her benefits. That is not perfect but it is not bankrupt. In fact, our so-called bankrupt Social Security program can provide with no changes at all benefits to future generations that are larger than people are receiving today. I wish my 401(k) could be bankrupt like that.

So why are we hearing that dramatic changes are needed to avert bankruptcy? In our view, these statements are designed to stampede young people into supporting proposals that they would reject if presented a full accounting of the facts.

A February 2000 survey that we conducted shed some light on this question. Our conclusion from the research was that the more young people learn about private accounts the less they like them.

Here are two examples from the survey. sixty three percent of young people would oppose private accounts if it meant, quote, massive new Federal debt in order to pay current benefits. Well, according to the Center on Budget and Policy Priorities, the administration's Social Security plan is likely to require nearly 5 trillion in new borrowing over the next 20 years.

seventy percent would oppose private accounts if it meant, quote, cuts to your guaranteed benefits would be so severe that you could not make up the difference with money from your private account. I ask you to consider the plan introduced by Senator Graham, and I quote from the Center on Budget and Policy Priorities.

"Under the plan, the retirement benefits for typical wage earners who are 25 to 35 today, including the monthly income from their private accounts, would be twenty seven percent or \$4,900 lower than what they receive under the current benefit structure....this benefit cut is larger than the cut that would be needed if no action were taken to shore up Social Security's finances."

Other polls have also demonstrated a rapid erosion of support among young people for private accounts. The Pew Research Center survey released in late March, for example, finds that, quote, people under age 30 who have heard a lot about the proposal are more than twice as likely as their less engaged peers to oppose the idea.

Fortunately, there are many changes for Social Security that young people would likely support. For example, raising the amount of income subject to Social Security taxation. Most young people have no idea that you stop paying Social Security taxes today once you hit \$90,000 approximately, since they never earn anywhere near that amount. It is a loophole so big that Bill Gates' entire income can pass through. Making the tax fairer would be a big step in the right direction. Most important, that is the kind of change that can preserve the essential guarantee.

As the pension system has changed around us, today's younger workers, more than any generation to come before, are responsible for investing on their own for most, if not all of their income above Social Security. Perhaps that is why so many young people are telling us we want that guarantee to be there today and tomorrow.

To address their concerns and to promote financial literacy among today's youth I ask you to join us in saying don't be fooled, Social Security is not going bankrupt.

Thank you for your time. And on behalf of our members, thank you for inviting Rock the Vote to be present today.

[The prepared statement of Hans Riemer can be found on page 96 in the appendix.]

Mr. BACHUS. [presiding.] Thank you. Without objection, the testimony submitted by the National Association of Investors Corporation and the statement of Susan Molinari, Americans for Consumer Education and Competition will be placed into the record.

[The following information can be found on page 116 in the appendix.]

Mr. BACHUS. At this time I guess I will recognize myself for a question. Mr. Riemer, let me ask you this. You are talking about most young people in you all's survey oppose personal savings accounts or personal investment accounts.

Mr. RIEMER. Yes. We conducted a survey where we asked people if they favored them and we worded it quite neutrally. Do you favor private accounts? And then for the group that did, we followed up and said would you favor it if it meant this, X, Y, or Z?

Mr. BACHUS. What about the—you were sitting back there during the first panel—the thrift savings accounts. Do you know the worst you would have done under those accounts?

Mr. RIEMER. I am sure you could tell me.

Mr. BACHUS. The worst you would have done if you had made all the wrong decisions would have been 4.3 percent annually. Now, that includes what we had as a stock market meltdown a few years ago of historic proportions. But the worst you would have done is 4.3. The best you would have done is 11 percent. So most Federal employees have earned on their money in these accounts between 4.3 and 11 percent. You know, the worst—if you made all the worst decisions, you still had 4.3 percent.

Do you know what the return on Social Security is in the rate of return?

Mr. RIEMER. Well, I actually don't believe that is really a valid calculation.

Mr. BACHUS. Well, now that is what people would get back. You think there is something wrong with the calculation?

Mr. RIEMER. I think it is a misleading calculation.

Mr. BACHUS. How is it misleading?

Mr. RIEMER. Well, because Social Security provides—can you imagine a 401(k) that could provide disability insurance, life insurance?

Mr. BACHUS. Oh, no. I am talking about on the survivor's insurance part.

Mr. RIEMER. But that is part of the cost side of the program.

Mr. BACHUS. I am not talking about on the disability. I am talking about on the——

Mr. RIEMER. Well, it is my contention that you can't separate them out as cleanly as some would suggest, and a 401(k) that could——

Mr. BACHUS. Well, actually the way you separate them you take the contribution for the disability part and you back that out and then you are left with the 5.2, I think it is, that goes in, of the wages that goes in for the survivors insurance fund. And then you calculate what people have gotten back over the several years. And then you get what is the rate of return. But I wonder, do you know what that rate of return is?

Mr. RIEMER. I suspect it is exactly the same rate of return that a 401(k) would get if it could do everything that Social Security does.

Mr. BACHUS. But they don't. They——

Mr. RIEMER. Exactly.

Mr. BACHUS. Because it is loaned to the government. The rate of return now is about 1.6 percent, between 1.6 and 1.8 percent. And I just—I guess my question would be, if young people had a choice on investing in a fund that yielded 1.6 or 1.8 return and one that yielded somewhere between 4.3 and 11 percent, you know, I think they would all choose that second account.

Mr. RIEMER. Well, I believe that the thrift savings plan is a good plan, and the thing that I like particularly about it is that it comes on top of Social Security, and I wish that everyone had that kind of option.

Mr. BACHUS. What if we took—you know, President Roosevelt's original—his original proposal and his Social Security for the first, I guess, 15 years functioned with a 2 percent tax. You know, employees put in one, employers put in one. What if we set the rate at 8 percent, which is where it was about 12 years ago, and then we allowed folks to either choose—they could put the other 2 percent into a personal savings account or they could put it into Social Security. Would you be opposed to giving them that choice?

Mr. RIEMER. So that would be a mandatory increase?

Mr. BACHUS. No, it would be a voluntary thing. They could either put it into—they could continue to have it in Social Security, or they could elect to put it in to a thrift savings.

Mr. RIEMER. I am not sure that I really understand. Are you asking if people were allowed to save money in addition to the Social Security tax that they currently pay?

Mr. BACHUS. No. What you would have to do, you would have to—because one out of every \$8 is going into Social Security now. So, you would have to reduce that somewhat, because I don't know that—I am not sure, do you think the American workers are capable of putting more than one out of \$8 into Social Security? I guess——

Mr. RIEMER. You mean taking money out of the Federal budget?

Mr. BACHUS. Well, let me maybe just ask you this. The rate of inflation and the interest rate are both above what the rate of return is on Social Security. And that seems to me like we are not getting a very—a good rate of return for Social Security. Do you agree with that?

Mr. RIEMER. No. I think Social Security provides a good rate of return.

Mr. BACHUS. Okay.

Mr. RIEMER. It lifts Americans out of poverty. That is the rate of return that the program provides.

Mr. BACHUS. But don't you think a bigger rate of return would move them that far away from poverty, I mean even further away?

Mr. RIEMER. Naturally it is a balancing act between the maximal rate of return and the maximal reduction of poverty.

Mr. BACHUS. My time has not expired because there is nobody else seeking time right now. I don't see anybody. Everybody else is listening intently. So I will ask——

Ms. GARRETT. Sir, could I add to that question?

Mr. BACHUS. Would you like to respond?

Ms. GARRETT. I would. Being a younger financial planner, and I am always going to hold to that position, regardless of my age, I tend to attract a lot of younger clientele. So I am working with people in their 20s, 30s, 40s, 50 years old. These individuals are having absolutely no problem with me not counting Social Security in their long-term retirement projections. However, we say that hopefully there will be some sort of benefit there. We just don't know what it is going to look like. It will change. It has to change.

I mean, we know that something magical is going to happen. Well not in a magical positive sense, but something definitely is going to happen between now and 2040 or whatever year we happen to come up with, because every time you recalculate it is a different number. But some time in my early retirement years there is going to be a major change needed or a change in benefits.

When I talk to younger clients about these issues, they would not like to rely on their financial solvency, their personal financial planning, they don't want to count on Social Security as even one of the three legs of the stool. That is a very rickety leg that we are talking about. It needs to be firmed up. It is an important part of it and, yes, it does need to be firmed up. I do not want to eliminate it.

However, the most important component are—the folks that I have been working with over the years are recognizing is that there are two other legs of this stool from the original plan. It wasn't always just Social Security. We need to be responsible for the other two-thirds. And the folks that I am coaching, we are talking about let's deal with the whole retirement need, how much capital do you need to be able to sustain your retirement. Let's accumulate it all based on these assumptions, and if we happen to get some Social Security, wonderful.

However, there may be some unexpected health care costs that we haven't factored in that is going to wipe those out. So I think from a financial planner's perspective the only prudent thing that we can do, given what we know today and what is on the horizon, regardless of how changes occur, is to not count full benefits for those between age 40 and 65, and not count any benefits for those under 40.

Mr. RIEMER. May I?

Mr. BACHUS. Yes.

Mr. RIEMER. It is an interesting observation. I am actually going through the process now of—I just recently bought a house. And I can tell you that if I thought I had to save enough for my future, discounting Social Security, I wouldn't have been able to afford a house. I couldn't pay my mortgage. So I think the observation that you have made certainly works for people in a position of financial privilege. But particularly for the lower income and middle income part of America, that is not a decision they can really afford to make.

Ms. GARRETT. Actually the folks I am speaking of are middle income, are very much middle income. And one of the things that we do have going on that is outside of the discussion, but the housing market. I mean, I did a presentation in southern California re-

cently, talking to a group of near retirees, and an individual said, I have got \$400,000 of equity in my home and \$100,000 in my retirement account and I want to retire in 3 years. What should I do? And I said, move to Kansas.

How else are we going to be able to make ends meet if we don't make those adjustments? Sometimes it may mean that we have to sell our home in a more expensive part of the country and relocate. You know, we have heard the term "menu of pain." there are a lot of things that we are going to have to do as a country and we will have to do as citizens to be able to make ends meet. It is not going to be pleasurable, but it is all critical.

Mr. BACHUS. Okay. Thank you. Mr. Salisbury, do you have any comment?

Mr. SALISBURY. I just add a comment vis-a-vis the base, which is in the modeling we have done that is presented in the testimony, if one looks at somebody born in 1975 who is 30 today, the current law maintenance of Social Security would produce an annual benefit of \$11,200. Simply saying we are not going to raise taxes and doing a purposeful gradual reduction in the benefit formula would cause that person to get still \$9,600, and that is essentially into perpetuity. That is not just 75 years.

So I think per the discussion, one of the important messages that the Congress should be giving people and youngsters particularly is there will in fact be a program there, even if, in quotes, taxes are held at their current level. If you move to somebody born in 2015, their benefit under the current program would be \$36,500 because of the current indexing formulas. Even with gradual reductions so that you did not increase taxes, that individual would end up with a benefit of \$24,500 per year in today's dollars. And so—

Mr. BACHUS. Well, how much—they would pay in—there would be 12.6 percent of their wages would be paid in either by them or their employer, right?

Mr. SALISBURY. Absolutely. That would be. But I am just—I will go the next step, which is, I guess a family values issue, is I look at Social Security probably as the most effective, should we say, avoider of a divorce in America that could have ever been imagined. I view every dollar I pay in payroll taxes at this point because it is in supporting my mother, my father, my mother-in-law and my father-in-law. And as a practical matter, I would not want to have to sit down at the kitchen table with my wife of 31 years and negotiate those monthly transfers to my parents. So my rate of return, I will view my rate of return as 100 percent, and per your question of how one calculates.

And as a matter of communication with young people, when I talk with their now both grandchildren and great grandchildren about this and you explain this to them in the context of what family transfer means and what the payroll taxes mean, as opposed to thinking of it, in quote, as an investment account.

Your points are well taken. If one adds some type of a defined contribution account on top of whatever the Social Security benefit is, the individual is clearly—because that benefit as designed by most individuals talking about it would go to the individual. That is an individual account. It is not an insurance pooled arrangement, and it will definitively create a higher rate of return.

Somebody who lives to 91 today gets a—or I—my genetics are such, I have an aunt at 105. I will probably live to a hundred. I will in fact get a far greater rate of return out of Social Security than the percentage that you cited.

On the other hand, my grandfather on my mother's side died 3 months after he began receiving Social Security. His rate of return was nowhere near what you just described, even though he died in 1954.

So that is my only comment on the rate of return analysis, is averages can be very misleading. And that is an average return which is accurate in the way it is calculated, but it also, in comparison to an investment account, somebody with long longevity versus short longevity, it depends on how you do the calculation.

Mr. BACHUS. What about—you know, I am just looking at myself. I pay, you know, if you talk about it as an insurance, as strictly insurance as opposed to investment, I am paying for a million dollars worth of insurance. I am also, you know, paying into Social Security. What I pay in for that insurance costs much less—I mean, even an annuity. I will use that as an example. My father had Social Security. He had an annuity. He lived to be 87. But his annuity paid him within—well, I think the Social Security was \$12,000 a month. His annuity was a thousand a month. But his annuity, he paid much less into his annuity and he only paid in for 15 years. And yet he got back almost the same thing.

Mr. SALISBURY. It would depend on what period. If you take the individual's 25 percent of today's retiree, his only benefit is Social Security, the annuity value for average life expectancy for that individual is about \$250,000. You multiply that to the 24,000, roughly, 23 to 24, that is the maximum benefit, that annuity value at today's dollars is about \$750,000. And you then have the disability issues, but you also, per my family point and others, if somebody lives to 91 or 105, that throws off the calculation.

So I think your point is the combination of thinking and dividing really what portion of Social Security does the Congress feel it is justified to maintain as a base benefit program in which rate of return really is not, in quotes, a relevant factor, versus what portion of the program would you want to move to, in quotes, an investment type of portion. And obviously, those can go from zero to 100 and in either direction as a matter of policy. And that is the challenge you and the Congress face.

Mr. BACHUS. Do you think that FDR, when he first proposed it, you know, as he proposed it, it was workers could take one out of every \$100 they earned. Do you think he envisioned that as a system that would get up to 6 or \$700 out of every dollar?

Mr. SALISBURY. I doubt that he envisioned any direction on it. As you know, the program was created because of the circumstances of the Great Depression. And essentially it was the only way to allow some people to move out of the labor force and retire. It was—in today's parlance, it was contemplated far more as, in quotes, a welfare benefit than it was the base retirement program.

I would note, and just in the word context and some comments made earlier in the hearing, is essentially there is only one Social Security system in the world that is less generous than the United States and that is the United Kingdom. Every other system in the

world is substantially more generous than the United States system. And the UK curve is about here. We are about here and everybody else is way up here. So it is—and I only say that because of a statement earlier where somebody said that it was bankrupting many governments elsewhere in the world. They didn't mention Italy. They could have. They did not mention France. They could have. They didn't mention Germany. They could have. Those are all countries whose programs, judged against ours, are about three times as generous, therefore about three times as expensive.

Mr. BACHUS. Okay, let me ask you this. And I am just—you know Alan Greenspan said that in my judgment that the existing pay-as-you-go system is not working and we have to change it. Now, would you agree with that?

Mr. SALISBURY. I would agree that either benefits have to be cut or taxes have to be raised in the long term to make the program solvent. Absolutely.

Mr. BACHUS. Okay. Now, those are two options. I mean, raise taxes or cut benefits.

Mr. SALISBURY. Or raise retirement age. I mean it is a long relationship.

Mr. BACHUS. And actually, you know, President Clinton made a speech at Georgetown in 1998 and he actually said there are four things we can do. I don't know if you are aware of that. But one of them was he proposed getting a better rate of return.

Mr. SALISBURY. Well, he proposed moving the trust fund, in quotes, the trust fund assets and transferring them into a pooled investment fund that would be a diversified portfolio, frankly, not dissimilar to what President Bush is in fact proposing. The only difference is that the President currently is proposing what I will describe as a software overlay on that pooled investment account. And President Clinton did not propose that, in quotes, administrative overlay.

But you are absolutely correct. What in essence they both are proposing to get a higher rate of return is essentially the same. The difference between the two proposals or the two Presidents and that speech and more recent speeches really goes to the issue of what you do vis-a-vis the benefit reductions. And as you point out, President Clinton did feel that all four of those approaches should appropriately be on the table.

Mr. BACHUS. All right. You mentioned raising the retirement age. The AARP is—you know, they have come out against raising the retirement age. They have come out against cutting benefits, as I understand it. And they have—I don't know what they have said about raising taxes. But what do you feel like, of those four options, what do you feel like—

Mr. SALISBURY. Well, I have actually—in the speech that the head of the AARP recently gave at the AARP, he actually mentioned all of those as possibilities and said they did not have a firm position on anything except not wanting an individual account as a carve-out. And they have said that they would be willing to have—they would support an individual account as an add-on, but the benefit reductions, in quotes, don't seem to have been put on that list.

Mr. BACHUS. What about—

Mr. SALISBURY. As a matter of many of the points raised earlier, the fundamental problem, vis-a-vis the 83 reforms or frankly earlier reforms is we are pretty bad at projecting anything for 75 years, let alone 50, versus 150. We have not accurately projected longevity. We have not accurately projected inflation. We have not accurately projected earnings rates. None of the above.

So I think part of the dilemma, frankly, for the Congress is that the last panel said do it and do it forever. As a practical matter, I don't believe there is anything you can do that guarantees that it will be, in quotes, forever. And one of all of those assumptions that frankly there is the greatest probability that we are wrong about in current actuarial assumptions is longevity. The amount of money that this Congress, quite appropriately, in my personal view, is putting into biotechnology research, the National Institutes of Health and the drug research, we are spending huge amounts of the Nation's resources to assure that the actuaries are wrong. And in essence, the one factor that one might look back at what Franklin Roosevelt designed and say what might he have done differently.

Well, the one thing I in hindsight would say he probably would have done would have been to index the retirement age to longevity if what was said earlier is true, that the reason for picking 65 was because half the people didn't live that long, or more than half. And if that is the case, then indexation to longevity would meet the primary objectives of the program. And then if you went the other step that was discussed in the last panel by members here, which was quite explicitly separating the disability and survivor benefit programs, so to speak, and figuring out what the appropriate benefit levels were for survivors and disability, having, in quotes, a separate retirement insurance program for a floor of income, and then per what you are describing, a tier equivalent to TSP, and you were then to index the life expectancy for purposes of that Social Security retirement tier.

As many of those that have argued over the years against raising the retirement age, essentially, what that argument has most frequently been is because people become disabled, because people can't continue to work. You can't raise the basic retirement age. Essentially, you would manage that separation. The institute luckily just does numbers on all of these things. We have never been in a lobbying business and we aren't. So what I just said is my personal opinion as one who with genes that suggest I may be here till a hundred would have to say that it would be totally fair in my view for Congress to say that I should not receive Social Security benefits for 35 years, and that maybe I should work a little bit longer, which is why I had no personal objection in 1993 to raising the retirement ages.

I just couldn't quite figure out why such a modest increase was legislated. But that is a personal opinion.

Mr. BACHUS. Well, I can tell you that I have personally said that I believe raising the retirement age has got to be part of the solution because—

Ms. GARRETT. May I tack on, please? I wholeheartedly agree with what Mr. Salisbury just shared as far as longevity is our major risk. When the plan was instituted we died for the most part when

the benefits began and that is why it worked. With demographics shifting as they are, with longevity increasing and medical science making that happen, we could be living in retirement 40 years or more. That is just what I am looking at personally. Imagine future generations.

Mr. BACHUS. You also had like 85 percent of the work force were men.

Ms. GARRETT. Exactly.

Mr. BACHUS. Now it is closer to 50 percent. And so they were not living as long as the work force is now because women are now living 16—the average woman lives 16 years past retirement age.

Ms. GARRETT. As I mentioned earlier, I think it is critical that we fix this leg of the stool. I do not want to eliminate it in any way, shape or form. But some drastic measures are going to be necessary. And I believe from the younger people that I have spoken with, there is a lot more flexibility than may have been revealed as far as what we are willing to accept. You know, many of us are saying I don't expect anything out of Social Security other than to support my parents or my grandparents, and I proudly pay my Social Security taxes knowing that I am helping to take care of my parents because they took care of me.

Well, if I knew for a fact that come age 75, 85, whatever, I was going to get a certain guaranteed amount of income for the rest of my days, I would very much be pleased with that result. That may mean that I am paying additional taxes. It may mean I am paying 100 percent taxes on any benefits that I receive. But it also will instill the fact that we all need to work longer, and I don't mean work in a horrible sense. But I believe that work, where it is being a vital, active, productive component of our society and our communities is part of human nature.

It was only up until three generations ago that we even got this notion that it is healthy to retire in our 60s, that that was the objective. That was the definition of financial success, to retire before your parents.

Well, our parents might have retired at 65, died at 75. They only spent 10 years in retirement if they lived that long. We are talking about, 20, 30, 40, who knows how many years in retirement? We need to raise that retirement age. I believe young people will support that, knowing that we would have that Social Security retirement benefit available when the time came.

Mr. BACHUS. Mr. Riemer.

Mr. RIEMER. The only thing I would say is that young people should also be offered a chance, I am not sure how you would do this, but some kind of dialogue about the retirement age. Offer them a chance on the alternative to pay into the system more and I think you might find that a lot of people would rather pay more and retire at the current age than retire at a later age. But again I think this is all a very reasonable discussion so—

Mr. BACHUS. Well, I would say that I think all of you have said and I think you are all right in saying that, you know, it will take several different things if we are to at least maintain the system with the benefits that they are promised today. I mean, would you all agree on that?

Ms. GARRETT. Absolutely.

Mr. BACHUS. And the solution is probably, I think, all those things ought to be on the table. But none of those things would solve the problem alone. I do believe the clearest thing you see as a difference between FDR's proposal, which was that people—the retirement age was a year shorter than—I mean that the life expectancy was a year shorter than retirement age and now it is a decade past retirement age. And if Mr. Salisbury is correct, in the one thing we may have underestimated is the number of retirees and how long they live, then our—with the present figures, we are saying that we are going to go from 3.3 workers for every retiree, down to about 2.1, I think it is, even if we—with what is predicted now. So it could actually be worse than that.

They are telling me that we need to clear the room for another hearing. And so does anyone have a—well, let me ask you this.

Mr. Salisbury, I do think what President Clinton proposed, he proposed getting to the same place as President Bush as far as getting the rate of return up. Do you think that that is a sellable proposition, what President Clinton proposed as part of the solution?

Mr. SALISBURY. We have surveyed on both approaches, and for reasons that I have no ability to understand, and also Rasmussen Research very recently polled on the question, and it was a very neutral form of the question, and the public across all age groups is amazingly opposed to, in quotes, the government investing in the private sector, whereas when the other question asked, well, are you opposed to the government setting up individual accounts which will be invested in the private sector, the numbers go up markedly across every age group.

As we say, for practical purposes it really is no different under the current proposals. But the public perception is that it is quite different. If all of you sat down, meaning both political parties, sat down at the table and the conclusion on a bipartisan basis was that that is what should be done, so that both political parties determined that that is what they were going to go sell the public as part of an overall package, then based on our surveys I have no doubt that that, as part of a total solvency package, could be sold in the same way, frankly, that any bipartisan package, as a practical matter, will be able to be sold if it is what both political parties and the President are out there saying.

I believed the same thing when President Clinton was seeking to move Congress and the administration towards a consensus view. The important thing, frankly, far more than the pieces of the package, is the consensus that leads everybody arm in arm to say to the American public, this is what we have done and we have done it together and it is what is in the best interest of the program.

I would just add a concluding comment back to the financial literacy subject, is that the tremendous strides that this committee, through the creation of the Assistant Secretary of the Treasury for this area, the creation of the Financial Literacy and Education Commission, its support of so many government programs in this area and the private sector developments is something you and the committee really should be heavily commended for because that is in the long term the primary tool that will make some of what has been discussed in this room today possible.

In the absence of basic financial education, in the absence of higher literacy on such crucial issues as life expectancy, then all of these problems will be far, far greater for the Congress in the future. So if that is achieved it can make the amount of lifting and the frequency that you have to do the lifting a far more pleasant exercise.

Mr. BACHUS. I agree. And that was actually in the flat tax which I was the principal sponsor of that. And Mr. Riemer.

Mr. RIEMER. I just wanted to say that I strongly agree with what Mr. Salisbury said and we would support that as well.

Mr. BACHUS. Thank you. I very much appreciate all of your testimony and I think things that all of you have proposed probably should be on the table.

Mr. RIEMER. Thank you for your time.

Mr. BACHUS. Thank you.

[Whereupon, at 1:55 p.m., the committee was adjourned.]

A P P E N D I X

April 20, 2005

Opening Statement

Chairman Michael G. Oxley
Financial Services Committee**Generations Working Together:**
Financial Literacy and Social Security Reform
April 20, 2005

Our hearing today begins our Committee's discussion of Social Security reform, initially focusing on the intersection with financial literacy, and I want to welcome all of our witnesses today. We have before us a panel of distinguished former Members, and we look forward to their insights as we begin the Committee's initiative in this area. Senator Simpson, Representative Penny, Representative Kennelly, welcome to the Financial Services Committee, it's good to see all of you again. Later, on panel two, we will hear from financial literacy professionals who will share with us their perspectives on this topic.

If we want Social Security to successfully provide for future generations, the program must be reformed. The program would continue just as it is now for current seniors and Social Security recipients—but their children and grandchildren surely will benefit if we move forward with a permanent fix. If changes are not made in the future, Social Security will not be there in its current form for today's young people. I am looking forward to working with the Members of this Committee on a bipartisan basis as we move ahead in this great and important debate.

Social Security was created in a different America. In 1950, there were 16 workers for every retiree. Today, there are just over three workers for every retiree, and when the Baby Boom generation retires, there will be only two workers for every retiree. It's time to face these facts, and President Bush has been courageous in doing just that.

Without reform, Social Security will become Social Insecurity in the future. Waiting is not an option, and band-aid reforms will not solve the structural problems. The longer we put off structural reform of Social Security the more expensive it will be to fix. That is why we must act now. Waiting will cost us an additional \$600 billion every year.

As the nation discusses Social Security reform, individual Americans are also thinking about their retirement security. I think we can all agree that we should continue to emphasize financial literacy. To succeed financially, to make the most of

Oxley, page two
April 20, 2005

their money, our citizens must be prepared to manage their finances and attend to their savings and investment decisions. People need information on saving and investing. They need to know about the benefits of compound interest, dollar-cost averaging, and diversifying their investments.

Americans are successfully accomplishing financial goals—raising children, which everybody knows is an expensive proposition; financing college educations; purchasing homes and eventually paying off mortgages; as well as financing retirement. But we need to bring along those who have not made as much progress and encourage everyone to maximize their money's potential.

This Committee has been working hard to promote financial literacy since 2001. We worked with the Department of the Treasury in the creation of the Office of Financial Education, which promotes access to financial education tools that encourage personal financial management, planning, and saving. We also worked together on Title V of the FACT Act, establishing a Financial Literacy and Education Commission with the purpose of improving financial literacy and promoting financial knowledge of all Americans. We need to continue to build the financial literacy foundation and incorporate financial literacy into the lives of our citizens.

This Committee needs to work in bipartisan fashion to help people take control of their financial future and to help the nation take control of its future. One of the most important principles of financial literacy is to review the situation, make what are sometimes hard choices, because you know that's the best thing for the future. That's also what we need to do as a nation.

Personal accounts are an important part of the answer. It's not fair that people pay into the system their whole lives but yet have nothing to call their own. Instead of banking on government promises and IOUs, Americans should have the option of voluntarily counting on their own investment returns in addition to the traditional Social Security System.

If they choose to participate, younger workers will own the money in their accounts. They will be able to watch it grow, and Congress can't spend it. People will be able to build their own personal nest eggs within the Social Security program, and that will give people a better chance to enjoy a more secure retirement.

Americans have always wanted to live their own lives and direct their own affairs. When given the choice between renting a home and owning one, the American Dream is to call something our own. I think the same desire is there for owning retirement security, and I look forward to this debate.

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**Opening Statement
(Submitted for the Record)**

Congressman Paul E. Gillmor (R-OH)

Committee on Financial Services

April 20, 2005

Hearing entitled: "Reforming Generations Working Together: Financial Literacy and Social Security Reform."

I would like to thank Chairman Oxley for calling this important hearing. While this is the first chance the Financial Services Committee has had to discuss social security, certainly this has been an ongoing debate and one that has large ramifications for our children and grandchildren.

Last Congress this Committee passed the FACT Act and I am proud of our efforts to promote financial literacy by giving consumers access to their credit reports. Financial literacy is the lynchpin to sound investing and safe participation in our credit markets. I think that the debate on the future of social security is largely centered on education and financial literacy.

There is no doubt that the majority of Americans are becoming increasingly involved in our capital markets and the rise in homeownership rates show that our country desires an ownership society. This year, homeownership rates reached almost 70%. In the past 20 years, the number of individual investors has risen from 30 million to 84 million in 2003. Individual stock ownership is six times greater than in France, and four times greater than in Germany and Japan. This active involvement in the capital markets shows that Americans are increasingly asking to take control of their financial future and use all the tools available to make for a safe and sound retirement.

The President's proposal to reform this problematic program is certainly one worth debating today. As our nation faces the crisis of a bankrupt social security program in the next 30 years, it will be our efforts to promote financial literacy and create a stronger social security that will allow us to continue on our path to achieve an ownership society where all Americans have a stake in their future.

**OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA
HOUSE COMMITTEE ON FINANCIAL SERVICES
“GENERATIONS WORKING TOGETHER: FINANCIAL LITERACY AND
SOCIAL SECURITY REFORM”
APRIL 20, 2005**

Chairman Oxley and Ranking Member Frank,

I want to express my sincere appreciation for you holding this very important hearing today on financial literacy. I hope that this will be the first in a series of hearings you will hold on this topic as financial literacy is truly the key to providing our constituents with the tools they need to grow financially during all stages of their lives.

Every day, consumers deal with money -from balancing a checking account; to shopping for a mortgage or auto loan; researching ways to pay for a college education; checking credit card statements; saving money for retirement; understanding a credit report; or simply deciding whether to pay cash or charge a purchase. ..the list goes on and on. But many consumers don't really understand their finances, and it is even more difficult for them to understand the ins and outs of social security

Financial literacy means empowerment -power to manage money, credit, and debt and become responsible workers, heads of households, investors, entrepreneurs, and leaders. It means banking the unbanked and bringing them into the mainstream financial system to protect them from abusive, predatory, or deceptive credit offers and financial products.

In 2004, reports from Jump\$Start and the National Council on Economic Education, the Schwab Foundation and others indicated that almost 66 percent of high school students failed a basic financial literacy exam. The numbers aren't much better for adults. High bankruptcy rates, increased credit card debt and identity theft make it imperative that all of us take an active role in providing financial and economic education during all stages of one's life.

To address these problems, I co-founded, and currently co-chair, the Congressional Financial and Economic Literacy Caucus with Congresswoman Biggert. The Caucus seeks to address these issues head-on by increasing public awareness of poor financial literacy rates and will work to improve those rates. The Caucus will provide a forum for my colleagues to promote policies that advance financial literacy and economic education.

As one of our first actions as heads of the Caucus, Congresswoman Biggert and I introduced H.Res.148, a resolution “Supporting the Goals and Ideals of Financial Literacy Month,” which falls in April every year. I was pleased when the House passed the legislation earlier this month and am pleased that States, cities and localities are honoring financial literacy month in numerous ways.

To celebrate Financial Literacy Month on Capitol Hill, Congresswoman Biggert and I are collaborating with Jump\$tart, Junior Achievement and the National Council on Economic Education on a Financial Literacy Day Fair that will be held April 27th from 12:30 to 4pm in the Cannon Caucus Room. A luncheon will be served at 12:30 with a short program beginning at 1pm. The program will include guest speakers and a video testimonial on the need to address financial literacy throughout the United States during all stages of life. I encourage all my colleagues and their staffs to attend this event.

As Chairman of the Congressional Hispanic Caucus Task Force on Education, I am working to improve financial literacy education for Hispanic students throughout the educational pipeline. I hope to promote financial literacy education in elementary and secondary schools; promote after school programs that foster financial literacy; promote financial literacy education for college students; and promote financial literacy education for parents and adult learners. Knowing that the Hispanic community is preyed upon the most by such entities as predatory lenders and check cashers, I intend to take whatever actions necessary to end their abusive behavior by either preventing or punishing those who engage in these outrageous practices. Seven out of ten first graders in Texas are Hispanic, and I guarantee you that they will not put up with these practices once they become adults and financially literate. There will be a backlash against these predators.

To ensure that the Hispanic community receives as much assistance with financial literacy as possible, I worked with Ranking Member Frank to insert a provision in the FACT Act requiring that all documents, toll-free numbers and the national financial literacy public service multi-media campaign, as authorized by H.R. 2622, the Fair and Accurate Credit Transactions Act (FACT Act) be translated in multiple languages, especially Spanish. I was pleased to learn that the mymoney.gov website and the financial literacy kits available via Treasury's toll-free number have been translated into Spanish.

To complement this development, I co-signed a letter authored by House Rules Chairman Dreier requesting that the Appropriations Committee include \$3 million in the Fiscal Year 2006 Transportation, Treasury, and HUD Appropriations bill to fund the national financial literacy public service multi-media campaign. A national financial literacy public service campaign will promote the importance of personal finance for all Americans, providing them with the tools to attain financial stability and secure opportunities for success.

I joined with Congressman Biggert and several colleagues in writing and sending a letter to the Appropriations Committee urging them to include \$3 million in funding for the Excellence in Economic Education ("EEE") program in the Fiscal Year 2006 Labor, HHS and Education Appropriations bill. In the No Child Left Behind Act, Congress established the EEE program "to promote economic and financial literacy of all students in kindergarten through grade 12." Congress also specified that under this program, the Department of Education would use a competitive process to award "one grant to a national nonprofit educational organization that has as its primary purpose the improvement of students' understanding of personal finance and economics. The law

requires the national education organization to distribute 75 percent of EEE funding to state and local organizations with proven, successful economic and financial education programs. In turn, these sub-grant recipients must match the EEE funds dollar-for-dollar. Both the national education organization and the sub-grant recipients work together and direct EEE funding to:

1. Increase students' knowledge of, and achievement in, economics and personal finance to enable them to become more productive and informed citizens;
2. Strengthen teachers' understanding of, and competency in, economics and finance to enable them to increase student mastery of economic principles and the practical application of those principles;
3. Encourage economic education research and development, to disseminate effective instructional materials, and to promote replication of best practices and exemplary programs that foster economic literacy;
4. Assist States in measuring the impact of education programs in economics and finance; and
5. Leverage and expand private and public support for economic education and financial literacy partnerships at the national, State, and local levels.

It is my hope that, through the Financial and Economic Literacy Caucus and my position as Chairman of the CHC Task Force on Education, we can further educate Americans about financial and economic topics ranging from how and why to open a checking and savings account, the benefits of home ownership and how to obtain and maintain good credit ratings. As Mr. Salisbury notes in his written remarks, everyone, regardless of age, income, and personal retirement goals, should be educated on issues of savings, life expectancy, investment allocation, and the basics of Social Security. Until such time when our nation's youth, young adults and retirees are financially literate and investment savvy, I find it inappropriate and untimely for us to alter the current Social Security system. In the words of Barbara Kennelly...."Ultimately, privatization will cut Social Security benefits, increase federal borrowing, and weaken Social Security. While it is always prudent to encourage financial literacy and enhance savings for retirement, no amount of planning can adequately protect all Americans from the unforeseen financial hazards of life the way Social Security does. To replace Social Security with a privatized system would put the retirement security of millions of Americans of all ages at risk "

We should be focusing more on the fundamentals of financial literacy such as how and why to open a checking and savings account, the importance of saving, and the need to manage debt properly before creating private accounts within Social Security.

As I tell my grown children, my two young daughters, my staff and all those who visit me to discuss the Caucus and financial literacy, it is never too late to take control of your personal finances- and it's something that all of us in the United States can start today!

With that, Mr. Chairman, I yield back the remainder of my time.

Statement for the Record
Congresswoman Darlene Hooley
April 20, 2005
FSC Hearing
“Generations Working Together: Financial Literacy and Social Security Reform”

Thank you Chairman Oxley and Ranking Member Frank:

Today’s hearing is an important one and I’m pleased that we are engaging in this debate. All Americans have an enormous stake in the future of Social Security and they deserve to have the benefit of proceedings just like this one.

Unfortunately, I believe we are spending a majority of this hearing discussing the wrong issue.

The Committee, and the Congress as a whole, is dedicating nearly all of our time to debating “private accounts,” when we should be discussing the issue of long-term solvency. And I believe that all of us here today can admit that the “private accounts” proposed by the President do not solve the long-term financial challenges of Social Security.

In fact, the President’s proposed “private accounts” would worsen the long-term outlook of Social Security. And no amount of financial literacy in the world will change that. It is a simple matter of fact.

We need to shift the focus of the Social Security debate away from “private accounts” and instead towards long-term solvency. And we can’t do that, until the Administration, and leaders in Congress move solvency to the foremost and take “private accounts” off the table.

I have held nearly a dozen town halls and neighborhood office hour meetings since January, and I am here to tell you that my constituents strongly oppose these “private accounts” and increasing the federal debt.

In fact, what they want has been made very clear to me. My constituents want a guaranteed benefit. In nearly 70 years, Social Security has never been a day late or a dollar short. Oregonians want to know that no matter what happens to the stock market that their children and grandchildren will be allowed to live out their years without the threat of poverty.

We should come together and work across the aisle, to fashion legislation with overwhelming support that guarantees that seniors will have a retirement safety net for generations.

Thank you.

**OPENING STATEMENT OF
CONGRESSMAN PAUL E. KANJORSKI
COMMITTEE ON FINANCIAL SERVICES
HEARING ON GENERATIONS WORKING TOGETHER:
FINANCIAL LITERACY AND SOCIAL SECURITY REFORM
WEDNESDAY, APRIL 20, 2005**

Mr. Chairman, thank you for convening this hearing to continue a national conversation about Social Security, one of our most revered, dependable, and successful institutions. Because I represent one of the oldest congressional districts in the country, I can attest to the dramatic impact this program has provided for senior citizens, as well as dependents and the disabled.

For almost 70 years, the Social Security system has provided much-needed benefits to tens of millions of Americans. Without the guaranteed benefits of this vital program, however, the poverty rate among the elderly would increase from 10 percent to nearly 50 percent.

Unlike pension benefits which are often dependent on the health of the sponsoring employer or private savings which can vary with the rise and fall of the stock market and other economic forces, Social Security provides a guaranteed minimum benefit for older Americans. President Roosevelt described retirement savings as a three-legged stool, of which Social Security provided just one leg. It is my hope that our current national conversation will inspire all Americans to focus not just on Social Security, but on ensuring that they are fully prepared for retirement by increasing their personal savings.

We have two primary challenges I hope the President and Congress will address: 1) the creation of an entity in which Social Security funds can be invested and not diverted -- as is our current practice -- to fund general government operations; and 2) the long-term solvency of the Social Security program.

I oppose the creation of private accounts within the Social Security program. I also cannot support efforts that irresponsibly add almost \$5 trillion to our already record national debt, especially since that borrowing does nothing to fix the long-term solvency of Social Security.

Our committee should seek suggestions from financial experts who can help us explore new ideas about how best to safeguard the funds which will finance future retirees, without detrimental consequences to our nation's capital markets.

Chairman Deborah Pryce
Subcommittee on Domestic and International Monetary Policy,
Trade and Technology
B-304 RHOB

Statement for the Record
Hearing on Social Security and Financial Literacy
April 20, 2005

Thank you, Chairman Oxley.

Welcome, and thank you for taking the time to discuss with us today the state of our Social Security system and this nation's need for greater financial education.

As you know, Social Security, if addressed today, could safeguard the futures of millions of young people. If ignored, it could become the biggest shortcoming of our generation. Any plan to reform Social Security will require a concentrated effort by Congress to craft a program that will remain solvent long after we are gone. It is in open discussions like the one we are having today where we can highlight what I believe is the concern of our entire nation, Republicans and Democrats alike — to ensure that our future generations have a dynamic and sustainable retirement system.

As the debate over Social Security unfolds, we have an opportunity to broaden the discussion to include a range of retirement security issues and educate American's on the choices of personal savings plans provided in the financial services industry today.

We also must educate Americans about the need to plan and save for retirements that may last 20 or 30 years, or longer. A focus on long-term savings for retirement should be included in any national strategy to improve financial literacy. Financial literacy helps families guarantee financial security now and in retirement.

In today's society, the average American high school senior lacks a basic knowledge of personal financial affairs. Nationally, personal financial literacy among students in America has increased only slightly over the last ten years, while personal debt has increased exponentially.

Federal Reserve Chairman Alan Greenspan testified before this committee and stated the need for Congress to address our country's dwindling savings rate. While just last year we had a 6% personal savings rate, this year's figures are showing an astonishing 1% personal savings rate. I believe we need to reverse this trend and get America saving again—and I know you agree.

I believe Congress can and should play a greater role in increasing an awareness of the importance of saving for our future and demonstrating increased aptitude and ability to manage financial resources such as credit cards, insurance, retirement funds and savings accounts.

Many of our children—our nation's future retirees—are unable to balance a checkbook or have no insight into the basic survival principles involved with earning, spending, saving and investing. Failing to manage their first consumer credit experience leads to establishing bad credit at an early age and hindrance of financial opportunities for years to come.

Just last month, I joined Congresswoman Judy Biggert as a member of the Financial and Economic Literacy Caucus, designed to increase public awareness of poor financial literacy rates across the country and to work towards improving those rates. Financial literacy empowers individuals to manage money, credit, and debt and become responsible workers, heads of households, investors, entrepreneurs, and business leaders.

The link between social security, personal retirement savings accounts and the need for increased financial literacy in America is closer than you think. While Congress can make laws and provide savings vehicles for Americans retirement through social security or personal retirement accounts, only with an overall understanding of financial services can a person truly benefit from the investment in their future. We must continue to do more- to reach out to more people.

Only by building a smarter consumer and a smarter saver do we secure the retirement of our future generations.

I thank Chairman Oxley for setting up this hearing and look forward to hearing the thoughts of our witnesses and the Members of the committee today.

With that, I yield back the balance of my time.

U.S. House of Representatives
Committee on Financial Services

Hearing dated Wednesday, April 20, 2005
Testimony of Sheryl Garrett, CFP®

Introduction

Thank you, Chairman Oxley, Congressman Frank and distinguished members of the Committee. I am extremely honored for this opportunity to share with you my thoughts and observations regarding financial and retirement planning.

Why me? My name is Sheryl Garrett. I am a Certified Financial Planner Professional and have worked with individual clients for 18 years. I have received significant media exposure for my “unconventional” way of working with clients. Over the last seven years of my financial planning career I worked exclusively on a fee-only, hourly, as-needed basis – assisting clients, from all walks of life – providing as much or as little financial planning and advice as they needed. Everyone has questions about their money at one time or another. They need access to a competent, objective financial advisor, who will work on their terms – as fiduciaries, with no hidden agendas.

The popularity of this service model with clients and advisors led me to create the Garrett Planning Network, which launched in July of 2000. We train and support other financial advisors in developing their independent hourly, as-needed, financial planning practice, and thereby increase the public's access to competent, objective, one-on-one financial advice. *Our mission is to make competent, objective financial advice accessible to all people.*

Although I am no longer working with individual clients, I am still intimately involved in the personal financial planning industry. Currently I focus my energies on mentoring other advisors, promoting our brand of advice, writing a column for Advising Boomers magazine, promoting my third book, *Money Without Matrimony*, and doing expert witness and consumer advocacy work.

Investment Advisor Magazine recently notified me that I have been selected as one of the 25 most influential people in financial planning for the third consecutive year. What an honor it is to be recognized by your peers for doing something you love, and that really makes a difference in people's lives.

The Role of a Financial Advisor

The job of a financial advisor is one of the most rewarding and important jobs I can imagine. It is the responsibility of the financial advisor to consider all potentialities and help clients consider all pertinent issues, understand the risks they are exposed to, determine what risks they must bare, and determine what strategies should be employed to increase the likelihood of financial success under each plausible future scenario.

The Variables

The majority of smart money management techniques are really quite simple. There are only so many variables involved. When it comes to determining when and if you can afford to retire, the only variables involved are; spending less and saving more now, spending less in retirement, getting a better return on your investments, working longer, or dying earlier. However, the last variable is not recommended as a planning strategy.

Spending Less and Saving More Now

Unfortunately, too many people feel that they have little or no control over the amount of money that they need to spend, now or in the future. For most Americans, this is simply not the case. We have much more control than we are willing or able to enforce upon ourselves or our families. We are a society in search of instant gratification and we have a severe lack of discipline.

Former generations had a much healthier approach to money-management. If they could not pay cash – they did not buy. There was no such thing as credit cards, revolving charge accounts, home equity lines of credit, or interest-only mortgages. Easy access to credit has enabled many Americans to destroy their own financial futures.

Our financial system has “evolved” to the point that some lenders – I argue – are in the foreclosure business, rather than the lending business. Not long ago, one could only qualify for a mortgage if their total housing expenses did not exceed 28 to 31% of their gross income. Now, I am hearing about people taking out mortgages 8 to 10 times their annual salary. They CAN NOT afford this mortgage, yet they have “qualified” for it. Nearly all of their paycheck will go to pay this debt.

Most Americans spend 100%, or more, of their net take-home pay. Therefore, one of the strategies I recommend to help enforce the concept of spending less and saving more is to invest a portion of this money, before we have a chance to spend it. These automatic investment plans give us the opportunity to withdraw money from our paycheck and contribute it directly into our 401(k) plan or equivalent employer sponsored retirement plan. This same strategy can be achieved through automatic deductions from an individual's checking account and invested into an IRA account. I strongly recommend Roth IRAs, if the investor is eligible.

Spending Less in Retirement

Where in the world did the notion that we need 70 to 80% of our current income in retirement come from? I have yet to meet that retiree. If we can't make ends meet now, how in the world can we spend less in our retirement years?

Unfortunately, most of us will have to get along on a fraction of what we did before we retired. We will only have what we've saved, hopefully some Social Security, and possibly a company pension.

We must adjust – just like everyone before us. There are no other options.

Getting Better Returns on Our Investments

Getting better returns on our investments does not merely mean getting more return. Rather, it means getting the appropriate amount of return, given our level of risk with which we are comfortable and our investment objectives.

Unfortunately, most citizens have little or no education or interest in historic investment returns, the behavior of various asset classes, or appropriate asset allocation techniques.

This fact becomes evident when looking at the statistics of how people invest their 401(k) plan assets. A recent study revealed that 29% of the assets were held in stock of the individual's employer. The percentage jumps to 43% if we are talking about employees of very large companies. Enron illustrated just how dangerous that type of portfolio concentration could be. But not enough of us have made the appropriate adjustments to our portfolio allocation – or, we have overcompensated.

Some retirement plan participants are so scared by the stock market that they keep most or all of their money in short-term, very low-yielding fixed income or money market accounts. These individuals select this allocation in an attempt to be conservative. However, after even modest inflation and taxes the real return on these “investments” is negative. This is not a conservative allocation.

To determine the right portfolio mix we need to ask the following questions:

- How long is my investment horizon?
- What is my tolerance for risk?
- What are my financial objectives?

There are excellent Internet based tools available, which anyone can use to determine the appropriate asset allocation for themselves. One of my favorites can be found at www.tiaa-cref.org. There are also excellent and plentiful resources available for little or no cost from 401(k) plan sponsors, public libraries, on the Internet, and through professional financial advisors.

Following are sound general guidelines:

<u>Time Horizon</u>	<u>Maximum Equity Allocation</u>
0-3 years	0%
4-5 years	20%
6 years	30%
7 years	40%
8 years	50%
9 years	60%
10 years	70%
11+ years	80%

Important note – time horizon is not how many years before you retire, rather it should be viewed as how many years before you will need to spend these dollars. Therefore, for a 40 year old, the time horizon on their retirement assets is 25-60 years. In 25 years they plan to retire, and given current and projected increases in life expectancy, they anticipate living to age 100.

What does this type of equity exposure mean from a risk tolerance perspective?

<u>Maximum Tolerable Loss</u>	<u>Maximum Equity Exposure</u>
5%	20%
10%	30%
15%	40%
20%	50%
25%	60%
30%	70%
35%	80%
40%	90%
50%	100%

NOTE: If one factors in the tolerable loss with the investment time horizon, the lower of the two percentages should be the portfolio's maximum equity exposure.

The following illustrates annualized returns (1926-2000) for various portfolio mixes.

<u>Portfolio Allocations</u> <u>% Equity / % Treasuries</u>	<u>Annualized</u> <u>Returns</u>
80 / 20	8.87%
70 / 30	8.28%
60 / 40	7.92%
50 / 50	7.24%
40 / 60	6.70%
30 / 70	6.00%
20 / 80	5.31%

SOURCE: Ibbotson Associates

These illustrations highlight the fact that virtually everyone must have at least a fraction of their portfolio invested in equities for growth opportunity, or they don't stand a chance of offsetting the effects of inflation. And the younger you are – the more you must have invested for growth.

Inflation is one of the biggest risks to our long-term financial security. Over the period 1926-2000 inflation averaged approximately 3% per year. On a year by year basis most of us would not feel the impact of this type of risk. However, at 3% annual inflation our expenses will double in less than 25 years. So the 40 year old, planning to retire at 65 will need twice the annual income they need today, just to maintain their standard of living. But it doesn't stop there. By the time our retiree reaches 90, they'll need twice again the income to maintain their standard of living. Chances are they will still be living, but their lifestyle will be severely eroded, unless their portfolio is invested to minimize the effects of inflation.

We can not afford to allocate too much of our retirement nest egg into low yielding fixed income investments. And we absolutely can not afford to accept a negative real rate of return on our retirement capital. Yet, that is exactly what the majority of Americans are doing. According to the Social Security Administration, Social Security provides at least 50% of the income for nearly two-thirds of all older Americans. For these retirees, over 50% of their "nest egg" actually earns a negative real rate of return.

We can not afford to remain ignorant or complacent regarding our financial futures. I blame optimism and naïveté. The majority of baby boomers and younger American citizens have never truly experienced financial hardship. Contrast that with Asian-American immigrants of the same age. These individuals have personally experienced or their parents have experienced extreme hardship during their lifetimes. The savings rate of Asian-Americans is over five times greater than that of the average American. Asian-Americans recognize that there will be hard times, and they can only depend on themselves to get through those tough times. Unfortunately those of us who grew up in this land of plenty tend to have an unrealistically optimistic outlook on the future. We think we can always put off until tomorrow what we should be doing today.

If citizens are truly aware of the lack of security regarding our Social Security retirement system, they will make adjustments to take care of themselves in retirement. We need to be informed and educated regarding our financial responsibilities. Time is of the essence. The sooner we begin to make adjustments in our own personal financial planning, as well as, the Social Security retirement system, the healthier we and our future generations will be financially.

Another important role of the financial advisor is to assist our clients in making prudent assumptions in our long-term projections. Many financial advisors, including me, will not assume Social Security retirement benefits for our younger clients. The majority of

individuals that I've spoken with, who were under the age of 40 do not expect to receive anything close to full Social Security retirement benefits. It is very easy to persuade these individuals not to include Social Security retirement benefits in their long-term retirement projections. I encourage them to presume they won't receive any Social Security and they need to accumulate all of their retirement capital on their own. If they do happen to receive some level of Social Security retirement benefits, it will be a positive surprise. However, any additional unplanned income may likely be needed to offset unplanned, extraordinary health care expenses. It is also the only conservative assumption a prudent advisor can make regarding Social Security benefits.

Individuals between ages 40 and 65 will also see a reduction in their Social Security retirement benefits, at some point during their retirement years, unless drastic measures are taken now. For planning purposes, we discount the assumption regarding the amount of Social Security retirement benefits that will be received by 50%.

Working Longer

One of the most significant and controllable variables for the majority of Americans is how long we remain in the workforce. Unfortunately too many people have the unhealthy notion that they are entitled to retire in their 60s. I believe that this notion came about with the advent of Social Security. At the time Social Security Retirement benefits came into being, Americans' life expectancy was approximately the same as when they were to begin receiving retirement benefits. As we all know, life expectancies have drastically increased over the last three generations. And, they will likely increase at an even more dramatic pace in the future.

Some define ultimate financial success as retiring earlier than their parents did. If our parents retired at age 65 and passed away at age 75, they only lived 10 years in retirement. Financial planners now typically project that an individual will live 20, 30 or possibly 40 years in retirement. That requires an enormous nest egg – with or without Social Security. And it's an unreasonable expectation for the majority of us. In my planning projections, I assume life expectancy to be no less than age 100. However, I am concerned that this may not be a prudent enough assumption. The last thing I want is someone waking up broke.

In 1950, 46% of men over age 65 were still in the workforce. Today, that number is less than 20%. We are saving less, living longer, and retiring earlier. Why are we surprised that we cannot afford to maintain our standard of living when we spend as much time in retirement as we did in the workforce?

I believe that it is against human nature to not be a productive and involved member of our society. One of the healthiest developments I am seeing with individual's personal financial planning is that they are planning to work longer or to enter into a staged retirement.

We must be realistic about Social Security. Drastic measures must be taken to ensure long-term solvency. Our citizens must recognize that living in the land of the free, comes with responsibilities - responsibilities to care for ourselves now and in our old age, responsibilities to provide for our families, and responsibilities to our communities and country. We are free to screw up and we are free to succeed. But we must be held accountable for own financial futures.

Thank you for your time and thoughtful consideration,

Sheryl Garrett, CFP®

STATEMENT OF BARBARA KENNELLY
PRESIDENT AND CEO
NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE
BEFORE
THE COMMITTEE ON FINANCIAL SERVICES
HEARING ON GENERATIONS WORKING TOGETHER: FINANCIAL LITERACY AND SOCIAL
SECURITY
APRIL 20, 2005

Chairman Oxley, Ranking Member Frank, and Members of the Committee:

On behalf of the 4 million members and supporters of the National Committee to Preserve Social Security and Medicare, I am delighted to be here today to discuss Social Security and financial literacy. The National Committee strongly endorses improved financial literacy especially when it comes to planning and saving for retirement. We believe, however, that the way to a secure retirement is to strengthen Social Security for all Americans, not to dismantle it.

The members of the National Committee understand better than anyone the importance of Social Security. Every day, over 47 million Americans – one out of four households – experience the success of Social Security firsthand. Social Security is the single largest source of retirement income in the U.S., and each year it keeps 12 million seniors out of poverty. Social Security, unlike virtually any other financial instrument, provides a sound, basic income that is adjusted for inflation and that lasts as long as you live.

Older Americans want to see Social Security strengthened not only for themselves, but for their children and grandchildren. That is because a lifetime of experience has taught seniors about the many challenges that face them in attaining a secure retirement. They are familiar with the financial hurdles involved in raising a family, educating children, and buying a home. They understand that, during one's working years, setting aside savings takes discipline and sacrifice even for middle-class Americans. More importantly, they have learned that life is not always predictable.

Improving financial literacy is an important national goal. However, financial knowledge rarely protects an individual from all of the "hazards and vicissitudes" of life. Despite our best planning, life gives us "lemons" – and they are often financial. Just ask the people who counted on a pension from Enron. Ask the people whose retirement came just as the stock market was dropping in the late 1990s. They saw the S&P 500 index lose 38 percent of its value from 1999 through 2002 while individual stocks dropped even more. These individuals understand better than most people that no amount of planning can protect one from the financial risks and unforeseen circumstances they may encounter.

To make my point, let me share with you the story of Mary Vogel. Her situation is not uncommon. Mary, who is 76 years old and unmarried, worked for 35 years for a

major airline. She retired as a ticket agent around the time the company was about to be bought out, and she thought she was well-prepared for retirement. The airline, however, eventually went bankrupt and continues in bankruptcy today. In January 2005, her life insurance was cancelled. In addition, her health policy was converted to a plan with more restrictions and more out-of-pocket costs. She is worried that her retirement benefits may be cut as well. Mary Vogel told the National Committee, "I worked my entire life and I believe that I have been prudent . . . but Social Security is my Security with a big S." The vast majority of Americans feel the way that Mary does. They want the foundation of their retirement income to be more secure, not more risky.

Unfortunately, privatizing Social Security would not only increase retirement risk, it would cut Social Security benefits, increase federal borrowing and further weaken Social Security's financial status.

No matter what you believe about the financial status of the current system, you need to keep in mind that private accounts make the situation worse. The President himself has said that private accounts don't improve solvency one thin dime. What many people don't realize is that, by diverting payroll taxes out of Social Security, the accounts actually accelerate insolvency. This means that everything has to be bigger – benefits cuts have to be deeper and borrowing has to be larger.

The Center on Budget and Policy Priorities has calculated that private accounts will cost nearly \$5 trillion in additional federal borrowing in the first 20 years of full implementation. In the current fiscal climate, \$5 trillion hardly seems like a reasonable expenditure. Some proponents of privatization describe this trillions-of-dollars in additional borrowing as nothing more than pre-paying the mortgage. What they forget is what happens to you when you pre-pay your mortgage by borrowing money – you end up paying a whole lot more by the time you are done.

The costs will fall on every American taxpayer for generations to come. Some call this borrowing the "transition" costs. However, using the term "transition" costs implies that these costs will last for a short time and be gone. In fact, my twin 3-year-old granddaughters will still be paying off this debt when they reach middle age.

Privatization will impose huge benefit cuts, and, ultimately, Social Security benefits will disappear entirely. The Congressional Research Service recently calculated that private accounts, coupled with the benefit-cut plan that President Bush has described as a "good blueprint", would reduce Social Security benefits dramatically. CRS reported that today's 41-year-old would experience a cut in benefits of about 30 percent. A child born this year with lifetime earnings of about \$35,000 a year (in 2004 dollars) would face a 91 percent cut in benefits. If that same child earned \$56,000 a year or more, he or she would have his or her Social Security benefit reduced to zero.

Here is where financial risk and financial literacy come into play. By design, privatization replaces the sound, basic Social Security benefit that lasts as long as you

live with a retirement income based on market risk – an income dependent on your financial intelligence and your personal luck. Remember Mary Vogel. She was prudent, but she wasn't entirely lucky. She worked in an industry whose fortunes changed, putting her retirement income in jeopardy. How much can one prudent individual be expected to predict about the future?

Senior citizens know that the inability to predict the future is why Social Security exists. It is there so that every person is not a "risk pool of one". That is why older Americans want to strengthen Social Security for their children and grandchildren. I have seen this passion to protect Social Security at every town hall meeting in which I have participated. Senior's opposition to privatization is not dissipating – in fact, it's growing stronger.

As for young people, the more they learn about privatization, the more they dislike it. They realize that private accounts are not really voluntary – even people who decide not to participate in an account will have their benefits cut dramatically. They learn that those who choose a private account will be subjected to a "retirement tax" that takes back 70 percent or more of the account by reducing their Social Security benefits. They discover that individuals will not be able to leave their full account to their heirs because they will be required to purchase a basic annuity with the account proceeds, reducing the amount available to pass on to their heirs.

Ultimately, privatization will cut Social Security benefits, increase federal borrowing, and weaken Social Security. While it is always prudent to encourage financial literacy and enhance savings for retirement, no amount of planning can adequately protect all Americans from the unforeseen financial hazards of life the way Social Security does. To replace Social Security with a privatized system would put the retirement security of millions of Americans of all ages at risk.

Social Security: Facing the facts and facing the future

By Timothy J. Penny
Former U. S. Representative (D-MN)

Written Testimony for House of Representatives Committee on Financial Services
Wednesday, April 20, 2005

Why reform is needed

Former New York Senator Daniel Patrick Moynihan once observed, "you are entitled to your own opinion, but you are not entitled to your own facts." As the Democratic co-chair of President Bush's bipartisan Social Security Commission (on which I also served), Moynihan challenged our Commission to start with the facts before we proceeded to any conclusions. Good advice. And the facts about Social Security's future are not hard to find. Reputable organizations – such as the bipartisan Congressional Budget Office and the Social Security Trustees – have regularly issued reports that point to a fiscal crisis in Social Security as the babyboom generation begins to retire.

Recently, another respected government agency – the Government Accountability Office (GAO) – released a report with similar findings. According to GAO, given the cost pressures created by the babyboom generation and other factors, annual payroll tax revenues will not fully cover benefits beyond the year 2018. And, if no new revenue is injected into the system, recipients could see benefit cuts of nearly one-third by the year 2039. On the other hand, if, as in the past, the solution is found primarily through payroll tax increases, the tax burden could climb fifty percent – from the current 12.4 percent of income to nearly 20 percent. Clearly, for our children and grandchildren, that alternative is unfair and unacceptable. The head of GAO, David Walker, advised members of Congress that "action taken today can ease...the pain of future actions." In other words, he was telling Congress "do not delay."

Taking action sooner than later was President Bush's goal when he appointed our bipartisan commission four years ago. But, understandably, the September 11 tragedy required concerted action by the President and Congress both domestically and internationally. Accordingly, Social Security reform was taken from the frontburner and left to simmer on the backburner. This recent GAO study reminds us that in a scant few years the Social Security problem will boil over.

Central to Social Security's financial stress is this simple fact: by the year 2030 (when the babyboom generation is fully retired) there will be only two workers for every retiree. Faced with similar circumstances, many other industrialized nations have taken steps to reform their government retirement policies. For example, in Great Britain and Australia, a pay-as-you-go Social Security system has been replaced with one that allows for workers to invest part of their payroll taxes in the stock or bond market. A basic safety net is retained, but workers in these nations now have the opportunity to create a retirement nest egg for themselves beyond the safety net.

The United States would do well to enact similar reforms. Polling data shows that most Americans support private investment accounts as part of Social Security, with overwhelming support coming from younger voters. Young Americans are already fearful that our current system is promising more than it can deliver. They understand that Social Security in its present form can not offer them the same security that it has provided for their grandparents. They are rightly concerned that they will be forced to pay more into the system, while getting less back. In fact, one poll of voters under thirty discovered that a greater number of young people believed in UFOs than in the likelihood that Social Security would be there for them. By large margins, these same young voters are strongly in favor of the option of investing a portion of their payroll taxes in a mutual fund. In short, they want some sense of control over their financial future.

Can we honor our commitment to those currently retired or soon to retire, while moving toward a system that helps workers establish personal savings accounts? Of course we can and every credible plan for reforming Social Security assures that those at or near retirement will be held harmless to any benefit changes. In particular, President Bush's bipartisan commission has suggested three alternatives that achieve this objective at less cost than maintaining the status quo. Certainly, reforming Social Security will be no free lunch. Inevitably, some benefits will need to be curtailed in order to make the Social Security system affordable over the long term. But, as the GAO report affirms, significant benefit cuts and/or tax increases will need to occur simply to shore up the current system. All the more reason to establish private accounts, designed along the lines of the Thrift Savings Plan for federal workers, so that younger workers have the opportunity to create wealth for themselves.

Why personal accounts are needed

Private sector economists and policy analysts have long advocated transforming America's insolvent, "pay-as-you-go" Social Security program into a funded system with personal accounts, where individuals could invest some of their payroll taxes in diversified market investments, protecting Social Security funds from political misuse and building assets to pass on to their families. In a recent analysis, however, another respected government agency, the non-partisan Congressional Budget Office (CBO), came as close as a government entity ever has to endorsing personal accounts as the best way to increase savings and build assets for the future.

In "Acquiring Financial Assets to Fund Future Entitlements," released on June 16, 2003 the CBO examined the options available to fund Social Security in the future. The current Social Security trust fund, which holds government bonds purchased with Social Security payroll tax surpluses, was one such attempt to pre-fund future retirement benefits. But most analysts now hold it as an example of what *not* to do. The government used payroll tax surpluses to avoid making tough choices in addressing deficits in the rest of the budget. And in 15 years when the government must begin redeeming the trust fund, it will have to raise taxes or cut spending. While the trust fund *looks* like savings, it really is just created paper assets that will have no alleviating effect on Social Security's future funding problems.

As alternatives, some have proposed either to "lock-box" Social Security surpluses for the future or to invest those surpluses directly in private stocks and bonds. But would these plans work?

The CBO seems doubtful. Regarding the lock-box, the CBO says that:

"Some policymakers have suggested that in a time of budget surpluses, the government could credit the Social Security trust funds with more government bonds. When money was eventually needed to pay benefits, the government could sell the bonds. While that strategy may appear to be reasonable, the eventual sale of those bonds would have the same effect as the government's borrowing the money then."

The experience of the past several years shows that even if politicians promise to "lock-box" Social Security surpluses, events such as terrorism, war and recession can quickly cause them to change their minds.

But what about letting the government invest the Social Security trust fund in the stock market? Government investment shares the same problem as the lock-box: there is no guarantee that surpluses won't be spent elsewhere, leaving nothing to invest. But it's even worse than that. The CBO notes that:

"...even if the government could run surpluses and devise an effective means to save them, the issue of having the government own private businesses would remain. Government ownership of stocks could affect corporate decision-making, interfere with the nation's competitive market system, and impede the efficient operation of financial markets--potentially limiting economic growth."

Alan Greenspan makes the same point anytime he's asked: government ownership of American businesses has the potential to do as much harm as good, and it's best for Social Security to steer clear of this danger.

Simply put, it's very hard for government to prevent the spending of Social Security money since it's the government itself that wants to do the spending. As the CBO clearly states:

"...even if the government had surplus receipts to invest, it is doubtful that a process to protect them would be sustainable. A future Congress, confronted by war, recession, or other urgencies, could spend the invested resources or could run larger budget deficits or smaller surpluses that offset the effect of boosting saving."

Future Congresses aren't bound by the policies of preceding Congresses, so it would be easy for them to go back on any commitment to save Social Security surpluses.

If trust funds, government investment, and lock-boxes can't work, what else could? The CBO agrees with private analysts that personal accounts--where Social Security money would be held by individuals rather than the government--offers the best chance for success:

"Assets set aside to fund future obligations are most likely to be insulated by a system in which ownership and control rest with individuals. In that circumstance, each participant has property rights and legal recourse to guard against the diversion of resources... If the money did not belong to individual participants, future policymakers could find alternative uses for it--to create a new benefit, fund a new program, or perhaps cover a budget gap."

Personal accounts may not be a perfect solution to government's lack of discipline in managing Social Security money for the future. But when it comes to saving, which is crucial if Social Security is to survive the retirement of the baby boomers, the non-partisan Congressional Budget Office found that personal accounts are the best alternative available.

Why an honest debate is needed

Despite these findings, politics will still determine the shape of the Social Security debate to come. Not surprisingly, there is a partisan fight underway over the application of the word "privatization" to President Bush's efforts, and those of many members of Congress, to establish personal accounts within Social Security. Opponents of these bills charge that they would "privatize" Social Security. Proponents say they would not. The press, understandably, shakes its collective head over the silliness of it all.

I and the other members of the President's bipartisan Commission to Strengthen Social Security became more enmeshed in this symbolic battle than we would have liked. Even before the Commission had produced a single recommendation, and as several Commission members publicly stated their opposition to privatization, there was an effort by opponents of personal accounts to convince the public that we intended to "privatize" the Social Security system.

There is a reason for this phenomenon. It is called "semantic infiltration." It is based on the principle that in politics, you have won the debate when your opponent starts using your terms.

That the term "privatization" is a misnomer is beyond reasonable dispute. Members of Congress and their staffs would be shocked to discover that the retirement savings plan in which they participate, the Thrift Savings Plan, has been "privatized." Of course, it has not, and Members know this well.

With each paycheck, Members of Congress and their staffs have the opportunity to ensure that part of their salary is saved in an account for their retirement. The assets in these voluntary accounts are tracked by the federal government and published in its annual budgets.

The President's Commission believed that what is good enough for Members of Congress is good enough for the rest of America, and recommended a similar system for Social Security. The independent Office of the Social Security Actuary wrote of the accounts recommended by the Commission, "it is reasonable to combine the amounts of Trust Fund assets and personal accounts for a representation of total system assets." That doesn't sound like privatization to me.

So why the persistent use of the "P-word?" It's because opponents of personal accounts know that it carries connotations of tearing apart the publicly administered Social Security system, something the public would never tolerate. They are placing a bet that perception will win out over reality.

The political allure of "privatization" as an attack word is so great that its adherents have taken to stretching its meaning beyond reasonable recognition. It is being twisted away from its true meaning of dismantling a publicly-administered system, and being applied to any attempt to begin saving Social Security contributions in funded accounts. This warping of language is dangerous. At a time when we sorely need to begin funding our future obligations, it demonizes efforts to do precisely that.

Words are powerful, and it is important that they not obscure the substantive realities behind them. And the reality here is that participants in Social Security will have greater expected retirement income if we establish Social Security personal accounts.

We know, for example, from the reports of the nonpartisan Social Security Actuary that participants in the system will have higher expected benefits if personal accounts are established than if they are not. A low-income couple who participated in such accounts and retiring in 2042 would expect, under Commission Reform Model 2, a monthly benefit of \$1051 in inflation-adjusted dollars, compared to \$806 for those who did not. Under current law, the existing system would only be able to pay that couple \$655.

These projections, however, understate the full case for personal accounts, which is their role in providing participants in the system, for the first time, with a "measure of wealth." That low-income couple would have more than \$140,000 in their accounts by the time of retirement, even using conservative rate of return assumptions. The benefits of access to such owned wealth cannot be measured solely by quantifying the monthly check from the government.

Commission co-chairman Daniel P. Moynihan referred to personal accounts as the "logical completion" of Franklin Roosevelt's original conception for Social Security, and the historical record demonstrates that they are. In President Roosevelt's 1935 Message to Congress on Social Security, he outlined a vision for ultimately extending the program to include "voluntary contributory annuities, by which individual initiative can increase the amounts received in old age." It is a measure of the bipartisan success of Social Security that a Republican President, George W. Bush, is now striving to make FDR's vision a reality.

As the press contemplates how to report on the ongoing war of words, I urge them to offer less coverage to the practitioners of Social Security politics, and more to the substance of Social Security policy. This substance is not illuminated by the one-page press releases of actors on the political stage, nor their mouthpieces at allied think tanks.

The Commission published more than 250 pages of bipartisan, independent analysis of alternative approaches to Social Security, which we commend to the attention of all reporters. The better informed about the substance that the public is, the less likely that they will be influenced by the crass politics of insinuation.

Timothy J. Penny served in congress from 1983-95 and is currently a Senior Fellow at the University of Minnesota Humphrey Institute. He also serves as the Chair of the National Advisory Board to For Our Grandchildren, a Social Security Reform advocacy organization.

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**Statement of Hans Riemer
Washington Director, Rock the Vote**

**Before the Committee on Financial Services hearing on
"Generations Working Together: Financial Literacy and Social Security"
April 20, 2005**

Chairman Oxley, Ranking Member Frank, members of the Committee, on behalf of Rock the Vote's one million members and supporters, thank you for the opportunity to present our views today about the future of Social Security.

My name is Hans Riemer, and I am the Washington Director for Rock the Vote, the nonprofit organization that promotes political participation and builds political power for young people. In the 2004 election, Rock the Vote registered over 1.4 million voters in a successful bid to increase the youth vote—which skyrocketed on Election Day thanks to the energy and enthusiasm of millions of young people across the country. Thank you for what you did to help make that possible—political leaders from all sides were a big part of it.

Rock the Vote's work does not end on Election Day. We are building on our momentum to educate young people across the country about how major policy issues affect them while empowering them to have a forceful voice in the decision making process. There are few issues more powerful than Social Security, the very foundation of our country's safety net. Without Social Security, more than half of all retirees—our parents and grandparents—would live in poverty.

As an advocate for our one million members and supporters, Rock the Vote believes that all Americans can learn how to invest for their own future. At the same time, we also believe that everyone should have a basic safeguard to protect them if they are unsuccessful with their personal investments. That safeguard, which is Social Security, should be sufficient to protect a middle class standard of living while at the same time lifting low income workers out of poverty.

We make it a point to emphasize with young people that if you want a decent quality of life when you are older, then you must invest on your own by fully participating in pension, 401(k), and IRA type plans. Social Security will be a floor or a basic protection, but it is not intended to provide your entire retirement income. You must save for your entire working life, beginning at the youngest possible age.

There is a world of difference, however, between the message, "Don't count on Social Security to be your *only* income" and, "Don't count on Social Security *at all*." Many young people have come to believe that they should not count on Social Security for any income. It is no mystery why they would think that, considering the constant media reports about Social Security's impending "bankruptcy," which strongly implies that there will be no money for future benefits and the Social Security Administration will have to close its doors. Many advocates of privatization have also fostered this impression; consider the remarks of President Bush, who recently said, "Without changes this young generation of workers will see a UFO before they see a Social Security check," according to the Akron *Beacon Journal* (April 16, 2005).

In fact, Social Security is not going anywhere. Since current workers pay the benefits for current recipients, the only way that the program would disappear is if there were no workers paying into it. Clearly that is never going to happen. While there is indeed a decline in the number of workers paying into the fund relative to beneficiaries, there are still more than enough workers to make ends meet.

If the goal of promoting financial literacy is to empower people to understand their personal financial situation and take action to improve it, a good starting point would be clearing up this unfortunate misunderstanding about whether Social Security is going to disappear or not. It's *a lot* of money we're talking about. According to the Center for Economic and Policy Research, an average income 21-year old is promised nearly \$24,000 per year in retirement benefits from Social Security. After 20 years, that's \$480,000 (in today's dollars).

The shocking news is that even without changes, Social Security will be 100% funded for the next 40-50 years, and then 70-80% funded after that (depending on whether you believe the Social Security Administration or the Congressional Budget Office). For the entire lifetime of a typical young adult, Social Security has enough money to pay 70-80% of his or her benefits. That's not perfect, but it's a lot better than "bankrupt."

In fact, our so-called "bankrupt" Social Security program can provide, with no changes at all, benefits to future generations that are *larger* than people are receiving today (including adjustments for inflation). Since Social Security benefits increase annually for every new "graduating class" of recipients who reach retirement age, the benefits that are promised to retirees in 2040-2050 are much larger than those received today—and these benefits would still be larger even if they were cut back to just what the current taxes can support. I wish my 401(k) could be bankrupt like that.

So why are we hearing so much about a potential crisis with Social Security? Why are we hearing that dramatic changes are needed to avert bankruptcy? In our view, these statements are designed to stampede young people into supporting proposals that they would reject if presented a full accounting of the facts.

A February 2005 survey of 18-39 year olds conducted by Rock the Vote and AARP sheds some light on this question. Our conclusion from the research was that "the more young people learn about private accounts, the less they like them." Here are two examples from the survey:

- ✓ 63 percent would oppose private accounts if it meant "massive new federal debt in order to pay current benefits." According to the Center on Budget and Policy Priorities, the Administration's Social Security plan is likely to require nearly \$5 trillion in new borrowing over the next 20 years.
- ✓ 70 percent would oppose private accounts if it meant "cuts to your guaranteed benefits would be so severe that you could not make up the difference with money from your private account." Many plans include a benefit cut (often called the switch to price indexing of benefits) that is so large it will produce a net loss of income on average, with a massive loss for people whose investments do not work out. Consider the plan introduced by Senator

Lindsey Graham, for example, as analyzed by the Center on Budget and Policy Priorities (02/03/05):

Under the plan, the retirement benefits for typical wage earners who are 25 to 35 today — including the monthly income from their private accounts — would be 27 percent or \$4,900 lower (in today's dollars) than what they would receive under the current benefit structure. (These figures are based on the Congressional Budget Office's methodology for estimating the gains from private accounts.) This benefit cut is larger than the cut that would be needed if no action were taken to shore up Social Security's finances.

Other recent polls have also demonstrated a rapid erosion of support among young people for private accounts. The Pew Research Center survey released in late March, for example, finds that "people under age 30 who have heard a lot about the proposal are more than twice as likely as their less engaged peers to oppose the idea."

If proponents of privatization want to argue their case on the merits of replacing Social Security with private investments, we welcome the dialogue; but no one should be under the impression that privatization is needed to "save" Social Security from "bankruptcy." That's just not true.

Fortunately there are many changes for Social Security that young people would likely support. For example, raising the amount of income subject to Social Security taxation. Most young people have no idea that you stop paying Social Security taxes today once you hit \$90,000—since they never earn anywhere near that amount. It's a loophole so big that Bill Gate's entire income can pass through—and when our members find out about it, they are usually incredulous. Making the tax fairer would be a big step in the right direction.

Most important, that is the kind of change that can preserve the essential guarantee. As the pension system has changed, today's young workers, more than any generation to come before, are responsible for investing on their own for most if not all of their income above Social Security.

Perhaps that is why so many young people are telling us, "We want that guarantee to be there today *and* tomorrow."

To address their concerns—and to promote financial literacy among today's youth—I ask you to join us in saying, "*Don't be fooled. Social Security is not going bankrupt.*"

Thank you for time and, on behalf of our members, thank you for inviting Rock the Vote to present today.

Written Statement
for the
House Committee on Financial Services
“Generations Working Together: Financial Literacy and Social Security Reform”
April 20, 2005



**Choose
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By
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Summary and Oral Statement of Dallas Salisbury

Chairman Oxley, Ranking Member Frank, and members of the committee: My name is Dallas Salisbury. I am president and chief executive officer of the nonpartisan Employee Benefit Research Institute (EBRI). I am pleased to appear before you today to testify on financial education and financial literacy. EBRI has worked on these issues since its founding in 1978, and expanded its work in 1995 with creation of the American Savings Education Council and in 1997 with the Choose to Save program of public service announcements.

Research has consistently documented that Americans are not financially fit—as most recently documented by the 2005 Retirement Confidence Survey released by EBRI earlier this month (details at www.ebri.org/rcs/2005/index.htm).

To address this problem, we must begin in the schools and in homes by teaching money basics. We must then teach Americans the many aspects of financial risk and how to deal effectively with each. The major risks are not saving, excessive debt, excessive interest expense, poor health, not diversifying investments, or outliving the money you have saved.

For the nearly 60% of workers who are saving at work—through programs like the Federal Thrift Savings Plan and 401(k)s—research has now documented a number of approaches that would improve outcomes:

- Automatic enrollment in work place savings plans, with an opt-out.
- An automatic contribution increase provision.
- Pre-diversified investment options, to simplify the decision-making process.
- Matching the contribution the individual is asked to make.
- Someone to talk to about what to do, and when.

Surveys also underline why education and action are needed:

- The public does not know when they will be eligible for Social Security, how long they are likely to live, how much they need to save for retirement, and much more.
- IRA and plan data show that over half of retirement plan participants have less than \$10,000 in their accounts.
- By comparison, look at someone who turns 65 and has no other source of income than the average \$9,000-a-year Social Security benefit: The lump-sum value of that annual benefit is about \$250,000. That gives you an idea of how small most savings are in America, even among those who have savings.

Most workers have always had to save for themselves in order to have income on top of Social Security in retirement. In the so-called “good old days,” about 1/3 of workers spent their entire career with just one employer. Today, that’s declined to about 1/4 of all workers. At the height of defined benefit pension coverage, about 1/3 of retirees had pension income in retirement. Among recent retirees, it is now about 31% and declining—and it will be a decline that continues over decades.

So individual savings are essential. Today, both the public and private sectors are doing more to encourage savings than at any other time in history. But, with mixed results.

To take the savings message to every doorstep, EBRI joined other organizations to form the American Savings Education Council in 1995. EBRI then joined with others to create the Jump\$tart Coalition for Youth Financial Literacy. Congress passed the SAVER Act in 1997

as we launched the Choose to Save national public service announcement initiative. In 1998 and 2002, the first of three National Summits on Retirement Savings called for by the SAVER Act were held, and the last summit is called for by statute in 2005. Over these years, the SEC held investor education forums around the nation that included many other government agencies and private organizations, as well as similar forums developed by the Office of Personnel Management and the Department of Defense. Now, the statutorily created Financial Literacy Education Commission (or FLEC) is completing its analysis of comments from over 170 organizations as it formulates a national strategy for financial literacy. EBRI and hundreds of other organizations stand at the ready to assist in the 2005 SAVER Summit and in the FLEC strategy implementation.

Unfortunately, no matter how you look at the statistics, the bottom lines are the same: Financial literacy in the nation is not good. Most Americans are not planning for their future by taking control of their current financial situation and saving for retirement and other life events. To change that, we need to sustain and expand the national effort to increase the delivery of financial education in order to increase financial literacy.

Mr. Chairman and members of the committee, I commend you for exploring these topics, and thank you for the opportunity to meet with you today. There is much to be done, but—one person at a time—we must proceed.

I would be pleased to take questions, and to respond to written questions following the hearing.

Written Testimony of Dallas Salisbury

Chairman Oxley, Ranking Member Frank, and members of the committee: My name is Dallas Salisbury. I am president and CEO of the nonpartisan Employee Benefit Research Institute (EBRI). I am pleased to appear before you today to testify on financial literacy as it relates to decisions Americans face about Social Security and their financial security in retirement.

Established in 1978, EBRI is committed exclusively to data dissemination, policy research, and education on financial security and employee benefits. We do not lobby or advocate specific policy recommendations; our mission is to provide objective and reliable research and information. All of our research is available on the Internet at www.ebri.org

Working with others, EBRI established the American Savings Education Council program in 1995, and the Choose to Save[®] education program in 1997, to educate the nation on the need to save. Our Choose to Save media public service announcements run across the nation through our partnership with the National Association of Broadcasters and around the world through our partnership with the Department of Defense.

Financial education and financial literacy in America are worthy of constant attention. It has been consistently documented that Americans are not financially prepared. We will only be where we *need* to be as a nation when all Americans understand the many aspects of financial risk, how to deal effectively with each aspect of financial risk, and have begun to do so. What are these risks? The risk of not saving. The risk of excessive debt. The risk of excessive interest expense. The risk of poor health. The risk of not diversifying investments. The risk of outliving the money you have saved. To get the public to the point of being prepared, we must begin by teaching individuals how to track expenses, how to budget, the meaning of compound interest, the nature of a stock and a bond, the danger of inertia, and much more. As a matter of public education, it is quite a challenge.

The need to do better as a nation is made clear by the financial status of today's retiree population. One-quarter of current retirees rely *totally* on Social Security for their income, and have no outside resources. Two-thirds rely *primarily* on Social Security for their income. One-third have annuity income from a pension plan. While today's workers are saving more than those who went before them, but they are not saving enough—and many are not saving at all.

Among the nearly 60% of workers who are saving at work through programs like the Federal Thrift Savings Plan and 401(k)s, research has now documented a number of things:

- More than a quarter of those who *could* participate in a savings plan do not—but automatic enrollment with an opt-out could dramatically increase participation.
- Less than 8% contribute as much as they could legally contribute, but an automatic contribution increase provision tied to the date of salary increases would be accepted by many workers and would increase savings.
- Many participants in plans do not diversify their investments, and more than three-quarters make no changes in their allocations and do not rebalance—but large numbers would welcome pre-diversified investment options like those now being implemented in the Federal Thrift Savings Plan.
- Surveys indicate that even among investors, large numbers do not know the difference between a stock and a bond.

- Surveys find that the public does not know when they will be eligible for Social Security, how long they are likely to live, how much they need to save for retirement, and much more.
- 401(k) plan data show that more than half of participants have less than \$10,000 in their accounts.
- By comparison, look at someone who turns 65 and has no other source of income than the average \$9,000-a-year Social Security benefit: The lump-sum value of that annual benefit is about \$250,000. That gives you an idea of how small most savings are in America, even among those who have savings.

With changing demographics, projected financing shortfalls in public programs such as Social Security and Medicare, and a transfer in responsibility for retirement savings and distribution decisions from employers to individuals, there is a greater need than ever before for all individuals to actively plan and save for their long-term personal financial security. Without action on the part of individuals, we could at least experience greater income difficulties for Americans as they age, and at worse a dramatic decline in the standard of living of retirees and an increase in elderly poverty. Therefore, financial education—and the financial literacy to which it leads—are of great national importance.

As president of EBRI over the past 27 years, I have had the unique privilege and opportunity to witness firsthand the growth and evolution of financial education in America. I can say that an increasing number of public- and private-sector organizations are committed to the mission of helping Americans to better plan, spend and save for their financial future. Although progress been very slow, this effort is not a matter of choice: It is a matter of necessity. Coalitions of organizations have formed that are committed to the mission of teaching Americans to successfully manage their financial lives.

Americans' consumer debt has climbed to frightening levels, more than doubling over the past 10 years. According to the most recent figures from the Federal Reserve Board, consumer debt has reached more than \$2 trillion. This figure, representing credit card and car loan debt, but excluding mortgages, translates into approximately \$18,700 per U.S. household. Americans are neither financially literate nor financially fit.

In today's society and economy, it is crucial for an individual to be financially literate. That is, to have the ability to recognize, analyze, and appropriately act upon financial matters affecting one's life demands and goals, both during working years (when people are making decisions about spending, saving and planning for the future) and during retirement (when people must assess how long they are likely to live, manage their assets, and determine how much they can spend each year and not run out of money). Research tells us that there is much to be accomplished.

For example, the 2005 Retirement Confidence Survey released just this month highlights some of the contradictions that education must overcome:

- More than two-thirds of workers are not confident that Social Security and Medicare benefit promises will be kept at current levels.
- Less than 20% of workers believe Social Security *will be* a primary source of income in their retirement—despite the fact that it *currently is* the primary source of income for more than two-thirds of retirees.

- Most workers report having accumulated less than \$50,000 in total savings, and only 11% have saved more than \$250,000—the lump-sum value of that average \$9,000-a-year Social Security benefit.
- More than 85% of workers say they will work after “retirement,” yet more than 40% of retirees report having retired earlier than planned due to medical problems or the loss of a job.
- More than two-thirds of workers are concerned that they are behind schedule in their saving, and many of those state that high expenses and debt keep them from saving.

Earlier surveys by EBRI found that less than 40% of adults have ever had a budget—yet only with a clear knowledge of expenses against income, and a budget for savings, are the overall statistics likely to change.

Have the Nation and Work Radically Changed?

The nation and the work force have not changed as much over recent decades, as the headlines would often have us believe. In the so-called “good old days,” about one-third of workers spent an entire career with just one employer; today, that is down to about one-quarter of the work force. At the height of defined benefit pension coverage, about one-third of retirees had pension income in retirement; today, among recent retirees, it is now about 31% and declining—and this decline will continue over decades. In other words, most workers have *always* had to save for themselves in order to have income on top of Social Security in retirement. Today, we do more to make that possible than at any other time in history, and we know more than ever about how to get workers to undertake voluntary savings. Mandated savings, like that which occurs in a defined benefit retirement program such as Federal Employee Retirement System (FERS), avoids leaving the results to chance; but as these programs have shown, we now know that the right combination of education, payroll deduction, automatic features in savings programs, and pre-diversified investment options can increase participation and savings.

Are Public and Private Organizations Making Progress?

To take the savings message to every doorstep, EBRI, the Department of Labor, the Department of Treasury, and many private-sector organizations formed the American Savings Education Council in 1995, and the “Savings Matters” program was launched. EBRI and ASEC then joined with others to create the Jump\$tart Coalition for Youth Financial Literacy. Congress passed the SAVER Act in 1997 as EBRI launched the Choose to Save national public service announcement initiative. In 1998, the first National Summit on Retirement Savings called for by the SAVER Act was held and brought together 300 delegates from across the nation to develop a strategy for financial education. The second summit, held in 2002, which focused educational initiatives aimed at one’s generation, and a third is called for by statute in 2005. Over these years, the SEC has held investor education forums around the nation that included many other government agencies and private organizations, as well as similar forums developed by the Office of Personnel Management and the Department of Defense. Currently, the statutorily created Financial Literacy Education Commission is completing its analysis of comments from more than 170 organizations as it formulates a national strategy for financial literacy. EBRI and hundreds

of other organizations stand at the ready to assist in the 2005 SAVER Summit and in the FLEC strategy implementation.

What Can Data and Surveys Tell Us About Social Security Reform?

First, as I already noted, Social Security is either the *only* or the *primary* income source for most American retirees.

Second, for a growing number of workers, Social Security will be the only annuity income protection they have against the risk of outliving their money. At 91, my father has had a much longer life than he anticipated, and with each passing year Social Security becomes increasingly important to Dad and Mom. Few plan their spending in anticipation of living to that 10% probability. During retirement, budgeting may well be more important than at any other life stage, as going back to work for income becomes less of an option with each passing year.

Third, Social Security annuities save the marriages of retirees' children. This pay-as-you-go system automatically transfers funds from working kids to their parents without guilt. More important, it does it without having to negotiate with your spouse on a monthly basis how much money to send to your respective "in-laws." Just think for a moment about how that monthly session would go for you or your children.

Fourth, Social Security does not allow access to funds for reasons other than death, disability, or retirement. We know from IRAs and defined contribution plans (like the Federal Thrift Savings Plan, or TSP) that, given a chance to borrow or take hardship withdrawals, millions will do it—thereby eating into retirement savings and the base for future compound interest.

What Do Data and Research Tell Us About Individual Account Design?

First, that either mandatory participation or a default into a savings account gains the highest levels of participation.

Second, that an employer matching contribution increases the amount that workers will contribute, and an automatic increase provision (as income increases) is the most effective way to achieve contribution growth.

Third, that individuals will place a high percentage of assets in "safe" investments, many will not diversify, and most will never change the mix of investments once set in place—but individuals have a high rate of acceptance of investment options that automatically diversify and rebalance the account.

Fourth, that individuals will generally take a lump-sum distribution at retirement, rather than an annuity, if given a choice, due to what economists describe as the "wealth illusion." Surveys indicate there is an absence of understanding of life expectancy and the primary pooling virtue of an annuity, and the fact that a lump-sum will only last you until average life expectancy, whereas an annuity (pooled with other retirees) can provide a monthly payment as long as you live.

These factors also repeat some of the financial literacy gaps and education needs that I mentioned at the beginning of my testimony.

Social Security Reform Alternatives: Comparing Benefits

A major issue Americans need to understand while making decisions about savings and work place retirement programs relates to what and when Social Security will pay. Social

Security is the most widely recognized and utilized retirement income program in the United States. As I noted, it is the only source of income for 25% of retirees, and the primary source of income for 66% of retirees. Whatever results from Social Security reform, Americans will need to understand how the program works and how it affects their overall financial future. This won't be easy to do: Even though Americans have been getting annual benefit statements for years, only 18% of respondents in our 2005 Retirement Confidence Survey knew the age at which they would be eligible for full benefits. Clearly, most people do not read or understand their Social Security benefit statements.

There are a number of Social Security reform scenarios under consideration. Given the projected funding shortfall currently facing Social Security, the promised benefit is not projected to materialize (with intermediate assumptions), unless changes are made by either reducing benefits or raising revenues.

EBRI research shows how people in different stages of the life cycle will fare under various courses of reform. If the nation settles on including some sort of individual accounts in Social Security, EBRI research shows the only way to achieve greater returns, other than taking a reduction of benefits, is to ensure the accounts are invested in diversified portfolios and not simply more "save" bond funds, assuming past returns are an indication of future returns. Government regulation tells us that we should not assume that the past is an indicator of the future, however, so there is still a risk related to future outcomes. Our research compares "Model 2" from the President's 2001 Commission to Strengthen Social Security (which appears to have the principles for an individual account plan favored by the Bush administration)¹ with three basic options:

- Current-law benefits with taxes raised to cover the shortfall over the 75-year actuarial period, by removing the existing \$90,000 wage cap and including all workers.
- Maintain current benefits until the revenue shortfall occurs, and then impose a "cliff" benefit cut.
- A gradual reduction in current-law benefits.

Under current law, a 30-year-old person (born in 1975) and currently making around \$16,500 a year would receive an initial annual Social Security retirement benefit of \$11,200 in today's dollars.² Here is how that individual would fare under the three basic options compared with the projected \$11,200 initial annual current-law Social Security benefit:

- Under the cliff benefit cut, where the cut begins in 2042, this individual's benefit would still be \$11,200, since he or she would reach the normal retirement age before the steep cut goes in effect.
- If, instead, benefits were cut gradually, so that one generation doesn't face the full impact of the funding deficit, this individual's benefit would fall to \$9,600.
- Under Model 2, if approximately half of the individual account was invested in the equity market and historical rates of return were achieved, the annual benefit would be \$12,500. Instead, if the entire account were invested in Treasury bonds to avoid the risk of investing in the equity market, the annual benefit would be \$10,400.

As you can see, even if a person invested a portion of their payroll tax in an individual account, certain investment allocations would actually result in a *reduced* benefit over other options.

However, for a 20-year-old born 10 years later (in 1985) and currently earning the same amount, the initial Social Security benefit under current law would be \$12,500 a year. What then?

- Because this individual will reach the normal retirement age *after* the date when Social Security's revenues will fall below its costs, the steep reduction caused by the cliff benefit cut option would reduce his or her initial benefit to \$7,700.
- If the benefit reductions were gradual, the benefit would be \$9,800.
- Under Model 2 individual accounts, the benefit would range from \$10,800 to \$15,700, depending upon the investment of the account assets.

Again, any benefit an individual account provides would fluctuate widely according to early decisions this individual makes.

What about a higher-income, older individual? For example, a 50-year-old individual (born in 1955) and currently earning about \$72,500 would have a current-law benefit of \$23,200—the same benefit as waiting until the revenue shortfall. Under the gradual reduction in benefits, her or his benefit would be \$22,900. Under Model 2 individual accounts, this person's annual benefit would range from \$21,000–\$21,300, depending on the investments. So, this individual would be better off not contributing to an individual account.

What about someone who is born in 2015? Assuming this individual has average annual earnings of \$55,000 in 2005 dollars, his or her current-law benefit would be \$36,500. Under the cliff benefit cut option, the benefit would fall to \$22,700, and under the gradual reduction in benefits to \$24,500. The individual account plan would provide benefits ranging from \$19,500–\$31,700, depending on the investments. Again, early decisions about investing will greatly impact this person's standard of living long after they are made.

The bottom line: There are some significant differences in outcomes, which depend on when someone is born, how much he or she earns, and how any funds in an individual account are invested. Nevertheless, a few basic conclusions can be drawn from this analysis:

- Lower-income people are more likely to do better under an individual account plan structured like Model 2 than are higher-income individuals, relative to the other options.
- Twenty-something-year-olds and younger individuals (born in 1985 and after) will benefit the most from reform action now, as opposed to waiting.
- Model 2 benefits with historic equity rates of return, are the *average* level of many possible scenarios; because there can be wide variations around an average, the resulting benefit could vary significantly from this average benefit.
- Everyone, regardless of age, income, and personal retirement goals, should be educated on issues of savings, life expectancy, investment allocation, and the basics of Social Security.

The benefits and replacement rates presented above are for very specific individuals who have steady earnings. They are not the benefits individuals should expect if they have a very

different earnings pattern. Full results of this research will be published in the May 2005 *EBRI Issue Brief*.

Conclusion

Unfortunately, no matter how you look at the statistics, the bottom lines are the same:

1. Financial literacy in the nation is not good.
2. Most Americans are not planning for their future by taking control of their current financial situation and saving for retirement and other life events.
3. To change that, we need to sustain and expand the national effort to increase the delivery of financial education

America is a land of great opportunity. However, many of its citizens are passing on their often one-time chance to build wealth and to have financial security by spending beyond their means, not properly planning for life's unexpected events, failing to invest in their own retirement savings, making bad decisions about debt, and not participating in their employers' retirement plans. We feel the greatest shame is that these actions are often done out of simple ignorance.

Organizations in both the private and public sectors must continue to collaborate on all levels to help educate Americans about the importance of taking control of their financial future. By continuing to combine and leverage our comprehensive networks and resources, we have a better chance of reaching people that none of us can reach alone. We need to move financial education into the classrooms as the *No Child Left Behind* program, hopefully, will do), more fully, into the work place, and into senior centers. Whether the issue is compound interest, or how long you are likely to live, there are numerous areas in which research shows that knowledge must be enhanced if lifelong financial security is to be achieved.

The financial security of the nation, including the financial well-being of my parents, their four children, their six grandchildren, and their six great-grandchildren, depend on it.

Mr. Chairman and members of the committee, I commend you for exploring these topics, and thank you for the opportunity to meet with you today. There is much to be done, but—one person at a time—we must proceed. I would be pleased to take questions, and to respond to written questions following the hearing.

Appendix

401(k) Accounts: What the EBRI/ICI Database Shows

To understand Americans' retirement plan investment activity and decisions, EBRI maintains the EBRI/ICI 401(k) database. This is the world's largest repository of information about individual 401(k) plan participant accounts. As of Dec. 31, 2003, the EBRI/ICI database includes statistical information on 15.0 million 401(k) plan participants, in 45,152 employer-sponsored 401(k) plans, holding \$776.0 billion in assets. The 2003 EBRI/ICI database covers approximately 35% of the universe of 401(k) plan participants, 10% of plans, and 41% of 401(k) plan assets. The EBRI/ICI data are unique because they cover a wide variety of plan record keepers and, therefore, a wide range of plan sizes offering a variety of investment alternatives. In addition, the database covers a broad range of 401(k) plans, from very large corporations to small businesses.

The most recent findings from this database indicate the portion of 401(k) balances invested in equities increased in 2003, reflecting the strength of equity prices. Beyond the market-driven changes, 401(k) plan participants do not appear to have made significant asset reallocations or to have made changes in their loan activity. Buoyed by strong equity market returns and ongoing contributions, 401(k) account balances increased in 2003. Among participants with accounts since year-end 1999, the average account balance increased 29.1% by 2003. The principal findings as of year-end 2003 are as follows:

Asset Allocation

- On average, at year-end 2003, 45% of 401(k) plan participants' assets were invested in equity funds,³ 16% in company stock, 9% in balanced funds, 10% in bond funds, 13% in guaranteed investment contracts (GICs) and other stable value funds, and 5% in money funds.
- Equity securities—equity funds, the equity portion of balanced funds, and company stock—represented 67% of 401(k) plan assets at year-end 2003, up from 62% in 2002, generally reflecting the strong performance of the equity markets relative to fixed-income securities.
- Other asset allocation patterns do not seem to have been affected by the strong stock market performance:
 - Younger participants still tended to hold a higher portion of their accounts in equity assets and older participants tended to invest more in fixed-income assets.
 - The mix of investment options offered by a plan, particularly the inclusion of company stock or GICs and other stable value products, significantly affects the asset allocation of participants in a plan.
 - About 13% of the participants in these plans held more than 80% of their account balances in company stock.

Changes in Asset Allocation Over Time

Knowing how people currently participate and allocate their employment-based retirement savings, we need to know what workers do over time. Research shows that few participants make changes in their asset allocations over time. Allocations in equity funds from 1999 to

2002 were generally constant. Reports from individual 401(k) administration firms suggest that nearly 90% of participants make no changes over time.

Annual EBRI Retirement Confidence Survey

For the 15th year in 2005, EBRI and Matthew Greenwald & Associates have conducted the country's most established and comprehensive study of the attitudes and behavior of American workers and retirees towards all aspects of saving, retirement planning, and long-term financial security, the *Retirement Confidence Survey (RCS)*. This annual survey is a random, nationally representative survey of 1,000 individuals age 25 and over. The survey contains a core set of questions that is asked annually, allowing key attitudes and self-reported behavior patterns to be tracked over time. We also add special questions each year.

This year's findings shed light on a number of issues relevant to financial literacy related to retirement planning and savings. We found that:

- Employers with a retirement plan can help their workers achieve investment diversification through the investment options they offer. Employers looking to help employees make more informed investment allocations may be able to do so more efficiently by offering lifestyle or lifecycle funds. Among participants not currently offered these types of funds, 23% say they would be *very* likely to participate in a lifecycle fund, 21% would be *very* likely to participate in a lifestyle fund, and 15% would be *very* likely to participate in a managed account.
- Half or more think they would be *much more* or *somewhat more* likely to participate if there was a provision that automatically raises workers' contributions by a fixed amount or percentage when they receive a pay raise (55%).
- A third said a managed account would persuade them to participate (35%).
- Automatic enrollment in 401(k) plans, as opposed to waiting for the worker to sign up, could also increase plan participation and savings. Non-participants appear to accept automatic enrollment—40% say they would be *very* likely to stay in the plan if their employer automatically enrolled them in one, and 26% would be *somewhat* likely to do so.
- Workers are more likely to save through the work place than on their own. More than 8 in 10 eligible workers say they participate in a work-place retirement savings plan (82%); 38% of workers have an individual retirement account (IRA). Promoting plans that allow automatic withdrawals from individual bank accounts may not significantly increase nonwork-place savings. In this case, ignorance is not the issue: Nearly 7 in 10 of those who do not currently use automatic withdrawals for retirement savings are already aware that they have this option (68%).

Americans' Greatest Financial Education Needs

What We Already Know

In determining what needs are unmet in financial literacy, EBRI has reviewed past recommendations from a number of forums, hearings, and summits on the topic. A few issues consistently came to the fore. Those are:

- The federal government needs to 1) work more cooperatively and efficiently, 2) make financial literacy an issue of national importance, 3) make use of current

government and nonprofit programs, and 4) set standards for evaluation tools, serve as clearinghouse for them, and disseminate best practices.

- Federal government policy should encourage and facilitate easy savings through the work place, including more small businesses and individual savings.
- Nonprofit organizations should 1) participate in creating a national plan, and 2) cooperate and coordinate with other organizations.
- Employers should institute voluntary efforts in employee retirement plan participation.
- Education programs should target 1) employees, 2) youth, and 3) minorities under-represented in current retirement savings. In addition, these programs should teach through segmented affinity groups such as sports teams, social clubs, religious organizations, community service organizations, etc.
- Topics to teach should include both basic skills (such as budgeting) and “higher-level” skills (such as retirement planning, investing, and managing debt).

Some of these items have seen action. The Financial Literacy and Education Commission was established under Title V, the Financial Literacy and Education Improvement Act, which was part of the Fair and Accurate Credit Transactions Act of 2003, to improve financial literacy and education of persons in the United States. The Commission is now working on a national strategy, under legislative mandate, that will address many of these issues. The administration and Congress are called upon by the SAVER Act of 1997 to hold the third National Summit on Retirement Savings before the end of 2005, to further identify initiatives that should be undertaken by the public and private sectors. Also, the Office of Personnel Management, under a recent congressional mandate, is working on an education strategy for the federal work force. Finally, under the *No Child Left Behind* law, financial literacy topics will be added to national examinations in the years ahead.

All of these actions represent recognition that concerted action is needed to move Americans to the knowledge levels needed if future retirees are going to have greater financial security in retirement than today’s retirees.

What EBRI Is Doing to Improve Financial Literacy

***Choose to Save*[®]**

EBRI is undertaking its own efforts to improve financial literacy among Americans. Our Emmy-award winning *Choose to Save*[®] (CTS) public education program began in 1995 as we worked with the U.S. Department of Labor on ways to implement a public education campaign on the importance of savings and financial security.

CTS includes educational brochures, radio and TV public service announcements (PSAs) in primetime, newspaper ads, and outdoor displays. Although the program stresses the seriousness of the savings message, it uses humor and positive examples to help people overcome their reluctance to address financial issues. Through local and national partnerships, the PSAs now run on radio and television stations in hundreds of cities in all 50 states. In addition, CTS PSAs are shown on military bases and ships worldwide.

ASEC

The American Savings Education Council (ASEC), an EBRI program, is a nonprofit national coalition of public- and private-sector institutions undertaking initiatives to raise public awareness about what is needed to ensure long-term personal financial independence. ASEC works through its partners to educate Americans on all aspects of personal finance and wealth development, including credit management, college savings, home purchase, and retirement planning. ASEC's goal is to make saving and planning a vital concern of all Americans.

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¹ See the President's Commission to Strengthen Social Security report for a further discussion of this model, as well as the other models that were offered by the commission at www.csss.gov/reports/Final_report.pdf.

² The \$10,000 annual salary is 27 percent of the average wage, \$16,500 is 45 percent of the average wage, \$36,500 is 100 percent, \$55,000 is 150 percent, \$72,500 is 200 percent, and \$95,000 is 260 percent. Each worker maintains this percentage of the average wage throughout his or her career.

³ "Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated (see page 6 for definitions of the investment categories used in this paper). Unless otherwise indicated, all asset allocation averages are expressed as a dollar-weighted average.

Testimony of the Honorable Alan Simpson
 Before the
 U.S. House of Representatives
 Committee on Financial Services
 April 20, 2005

Mr. Chairman, and Mr. Ranking Member, thank you for this opportunity to testify before your Committee. I appreciate the Committee's attention to the issues of Social Security reform and financial literacy, and I hope that you will find my testimony to be useful.

I retired from the United States Senate a little over eight years ago, at the beginning of 1997. I had spent a lot of time working on reforming Social Security, and when I retired I was acutely conscious that a huge problem remained unsolved. Because Congress still has not acted to fix Social Security, you have a worse problem before you than the one I was wrestling with during my last term. And if you fail to act, future Congresses will face a more ghastly problem still.

I served on the Bipartisan Commission on Entitlements and Tax Policy that was convened by President Clinton, and co-chaired by Senators Bob Kerrey and John Danforth. And when I say "bipartisan," it truly was that. Our two co-chairs, Senators Kerrey and Danforth, worked as closely together across the aisle as any two members of the same political party. They did this because they shared a common concern for the future of the federal government and for the nation.

Our Commission put together a chart that was aptly titled, "Current Trends are Not Sustainable." It showed how, left to their own devices, federal entitlement programs would eventually swallow up the entirety of the federal budget. And just in case anyone doesn't understand which programs I'm talking about, let me name the two biggest: Social Security and Medicare. Those two programs cannot continue indefinitely as they are now structured. Something within them has to give.

Since the Entitlement Commission report, much has changed, yet in a larger sense, nothing has changed. We've gone from a Democratic President to a Republican President. We've gone from Democratic control of Congress to Republican control of Congress. And if we were to make the same chart today, the numbers would change, the dates would change, but the basic picture hasn't changed at all. Unless something fundamental is done to rein in the growth of Social Security and Medicare, entitlement programs will ultimately require all of our citizens' tax dollars to operate, without so much as a penny left over for anything Congress might need to appropriate.

Serving on the Entitlement Commission was a most interesting experience. I learned a lot from it. One thing I learned is that if you are going to wait for the interest groups that lobby on these programs, and work their members into a froth, to honestly step forward with constructive solutions, you are going to have one long wait! We had them all in before the entitlement Commission – not just the AARP, but other seniors' groups, and labor groups.

And we showed them the charts. We showed them how costs were going to skyrocket in these programs when the Baby Boomers hit the retirement rolls, and how their kids and grandkids were going to be left holding the sack. And we got the same old song and dance that Congress is getting now. Polite comments about how we should act to keep these programs strong and stable, but unflinching opposition to any proposal that would actually deal with the problem. Today, that has not changed one iota. When you resolve to do something, you're going to have to filter out a lot of the noise and hysteria from groups who don't want anything done – anything, that is, except huge tax increases on the next generation, when "they" – "we" – "me!" – have exited the scene.

It's worth remembering that the Entitlement Commission was meeting just one decade after the 1983 Social Security rescue led by the Greenspan Commission. Despite that action, already, ten years later, it was so very clear that we still had a serious problem. The 1983 act was a great example of

bipartisanship, but it didn't fix the fundamental Social Security problem, which is a program where the costs are programmed to grow faster than the tax base.

In fact, well before the Entitlement Commission, my old friend and late colleague Daniel Patrick Moynihan was calling attention to the fact that the 1983 fix was not going to hold. He pointed out that all those surplus payroll taxes we were collecting were being spent as fast as they were collected, and that the assets in the "Social Security Trust Fund" were nothing more than a bunch of IOUs the government was writing to itself as it was spending the money. He proposed that we simply cut the payroll tax outright. That wouldn't fix the problem, but it would at least do away with the fiction of building up a big Trust Fund that would supposedly carry us through the difficult years to come.

Later on, Senator Moynihan modified his proposal, coming back with a new version in which we would cut the payroll tax, and allow workers to direct the tax reduction, if they wanted, into a personal account. That way, at least some of their Social Security contributions would be saved, something that the federal government has never done, and never will do. But I digress and am getting ahead of myself.

After the Entitlement Commission disbanded, I teamed up with Senator Kerrey to introduce a series of bills that were designed to bring Social Security back into long-term balance. This legislation was based on plans that we had each separately put before the Entitlement Commission.

The basic logic of these proposals wasn't hard to follow. They were based on the reality that Social Security cannot possibly pay all of the benefits that are now being promised. To do so would require future tax rates to be astronomically higher than they are today. In the 2005 Trustees' report, the Trustees projected a need for payroll tax rates of greater than 18 percent, for Social Security alone, by the time today's newborns are in retirement. This is similar to the projections that so alarmed Senator Kerrey and myself.

The full Social Security payroll tax of 12.4%, is already a serious drag on employment and job creation. We cannot afford to keep raising it forever. And it would be absurd to do so, given that it can be easily avoided with some common sense reforms.

Consider this: *the highest wage earners, the very top of the income scale, are being promised benefits under the current system, in 2050, that are 40% higher than the highest wage earners receive today.* And that's *after* adjusting for inflation. Can someone explain to me why we should force future generations to pay stratospheric tax rates so that we can parcel out higher and higher Social Security benefits? That is exactly what the current system will do if we don't change it.

At some point, common sense will surely prevail, and the rate of benefit growth will be brought down to a sustainable level. And the right time to do that is now. The sooner we put that change in place, the more gradual it can be, and the more fair to the retirees of the future.

Bringing benefit promises back to a sensible rate of growth will still allow benefits to rise at a pretty good clip, but it will be considerably less than the current system is promising. That's where the personal accounts come in. By giving workers the chance to invest in a personal account, we enable them to use the proceeds from long-term investment and to get some of that money back. Not all of those promised, necessarily, but surely a heck of a lot more than the current system will be able to pay them.

Senator Kerrey and I put forward our legislation, which would have made the tough choices to bring the system back into financial balance, and to set up personal accounts within the system. Our logic was very simple: be realistic about what the current program can pay, and set up the accounts to allow workers to do better if they can.

Now, someone will ask me whether it is possible to fix Social Security without the personal accounts, and the answer is yes, of course it is, but it's not clear to me why one might want to. If you take the personal accounts out of the equation, then you do two things: you lower the benefits that the system will be able to pay, and you also continue the wasteful situation in which all surplus Social Security money

continues to be spent. If you want to make sure that any of this money is saved, the only way to do it is to put it in personal accounts, because the federal government will otherwise spend every penny of it. That is a “given.”

I grow more than a little weary of the blame game in Washington as to whose fault it is that we have deficits, and shouldn't we just have a “lockbox” to save Social Security, and then all will be well. I served in the Senate since well before the 1983 Social Security amendments. Social Security started running big surpluses in 1983. As I say, we've had Democratic Presidents and Republican Presidents, Democratic Congresses and Republican Congresses. It doesn't matter. The Social Security system that we now have does not save money. Period! It never will! It ain't built that way!

So in 2017, when the system starts running short of funds, the Social Security Trust Fund will go into “deep drawdown” – meaning that the federal government will have to scramble to find money to fill in the growing gap between the system's promises and its revenues, i.e., pick up and pay off all those I.O.U.'s!

I always chuckle my bald head off when I hear people say that putting money in personal accounts would “take money out of the Trust Fund.” I can promise you, there's no money there now. The only way to generate any funding for tomorrow's benefits is to start putting some of that money aside in personal accounts.

I've been asked to give my views about the federal employee thrift savings plan. As a Senator, I had a whole staff of employees –and me -- who were happy participants in the program. We were each able to put money into a long-term savings account, get the benefits of long-term investing, all with essentially negligible administrative costs. You don't have to be a financial genius to save a lot of money through the Thrift Savings Plan. Why we in the federal government should have access to such a terrific means of saving, but the rest of Americans should not, is another mystery to me.

Finally, let me reiterate how important I believe it is that both parties come together to do something to fix Social Security. The latest Social Security Trustees' report put the date of its first cash deficits at 2017 – just 12 years from now. We are running out of time to switch course. The main thing that has happened since I retired is that a lot of time has passed, and we have lost the very valuable time that we could have used to invest in the program's future.

And every year that we wait locks in more of the program's built-in cost explosion. You and I all know that no sane Congress is going to touch the benefits of people now in retirement. So if we acted this year, no changes in cost growth could take effect until some years from now. If we wait a few years to act, then we'll have to make the same assurances then, and postpone changes still further. With every year of built-in cost growth that slips by, we sentence our grandkids to higher and higher tax rates.

When I was in the Senate, I was proud to work with Senators like Bob Kerrey, Chuck Robb, and Pat Moynihan on legislation to deal with Social Security. The same facts confront Democrats and Republicans alike. A pay-as-you-go system is not going to hold up under the pressures of the demographics of the 21st century. We need forward-thinking legislators to put aside partisanship and to ignore the babbling and groaning and clamoring of the seniors' groups – whose members aren't affected one whit by any of the changes that desperately need to be made -- and to chart a better and responsible course.

Thank you again for this opportunity to testify.

**Statement of the Honorable Susan Molinari
Chairman, Americans for Consumer
Education and Competition**

House Financial Services Committee

April 20, 2005

Chairman Oxley, Ranking Member Frank, members of the Committee, my name is Susan Molinari. I am the national Chairman of Americans for Consumer Education and Competition (ACEC), an organization dedicated to improving the financial literacy of young people and to educating consumers about their rights and choices in a free market. ACEC has the financial support of VISA USA and working partnerships with national organizations that share our goals. Thank you for the opportunity to submit this statement.

ACEC was created in response to a national survey that found that 81% of adults wanted solid, personal finance courses taught in their children's schools. The same survey indicated that less than 1 in every 5 adults believed their children's schools were adequately teaching personal money management skills. As we found out in most of our surveys, adults themselves were not highly literate in financial management issues and therefore, not prepared to pass on to their own children personal money skills.

Currently, young adults are the fastest growing and largest category of bankruptcies in the United States and as we will hear today, America's savings rate remains in the low single digits. Planning for expenses like college tuition and long-term care expenses is something far too many Americans are not doing. Budgeting now for retirement later is too often not a part of financial planning during our most productive and higher-earning years.

I applaud you for holding this hearing that very accurately brings financial literacy into the fold as Congress debates Social Security reform. Financial literacy forms the foundation that supports such American dreams as home ownership and a secure retirement. Sound financial skills are crucial to avoiding the pitfalls that result in many of our citizens – particularly young ones – getting into financial trouble. Quite simply,

being financially literate is essential to controlling, rather than being controlled by one's financial circumstances throughout life. And, as Federal Reserve Board officials have pointed out, mastery of these financial ABC's by consumers is essential to the smooth and efficient functioning of our free market economy.

It is evident from this hearing that our federal government and this administration is taking a leadership role along with the financial literacy community in the mission to educate Americans, including many young Americans, of whom will be leading this country in the future, on how to responsibly manage finances and make sound fiscal decisions with their own money. We live in a society where more than half of our households live paycheck to paycheck and have not saved enough for retirement. Our younger generations need to chart a new financial course that prepares them for a more secure future.

ACEC will soon expand its website to include a section on smart financial planning for retirement. Our site could support a "retirement calculator" that permits users to enter some key variables like age and monthly savings so they can determine what kind of nest egg they could expect to accumulate by retirement. Often, even the most financially knowledgeable people are surprised to learn how much of a difference a small increase in savings can make, when compounded over decades.

The bottom line is that we can all learn, Mr. Chairman, from what we hear today by members of the committee and the distinguished panelists. Reforming Social Security is a monumental endeavor. The financial literacy community is encouraged that Congress is including money management education in the discourse on this important public policy. It is a vital piece of the framework.

ACEC pledges to continue to work with Congress and the administration on financial literacy initiatives. Raising awareness in our children and young adult consumers of financial literacy will yield great dividends and prevent us from borrowing on their future. Government, both state and federal, plays a key role in keeping this commitment.

Thank you, Mr. Chairman and members of the committee.

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WRITTEN STATEMENT OF THE
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
ON
FINANCIAL LITERACY AND SOCIAL SECURITY REFORM
PRESENTED TO THE HOUSE FINANCIAL SERVICES COMMITTEE
APRIL 20, 2005

**WRITTEN STATEMENT OF THE
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
ON
FINANCIAL LITERACY AND SOCIAL SECURITY REFORM
PRESENTED TO THE HOUSE FINANCIAL SERVICES COMMITTEE
APRIL 20, 2005**

On behalf of the Credit Union National Association (CUNA), which represents about 90 percent of the 9,100 state and federal credit unions nationwide and their 86 million members, we ask that this statement be submitted as part of the record for the hearing of April 20, 2005 on financial literacy and social security reform. We are pleased that the Committee recognizes the need to continue to develop a national strategy to promote financial literacy, and we appreciate the opportunity to provide an outline of the programs and initiatives that CUNA and our member credit unions are involved in to promote financial education to both youth and adults. Though CUNA has no position on whether personal accounts should be a part of any Social Security reform, it is our hope that if legislation moves forward that permits financial institutions to offer such accounts, that credit unions are included as a viable option.

Credit Unions and Financial Literacy

Credit unions have traditionally made financial education a part of their mission, providing financial information and training to members on a one-to-one basis. Many of our member credit unions actively sponsor community and school-based educational programs and seminars, providing individuals with resources such as: how to maintain a checking account; how and what to look for when purchasing family transportation; how to complete a mortgage loan application; what is involved when applying to finance or repair a home. Many credit unions are actively working in schools to teach personal finance skills to children and teenagers. We also provide credit union staff as volunteers to read to elementary school children, participate in the "Partners in Excellence" program with the local school district, and provide scholarships to needy high school students to attend institutions of higher learning. All these services are provided at no cost and are open to credit union members and the communities they serve. Highlighted below are several key programs and initiatives that CUNA and its member credit unions are engaged in to promote financial literacy.

JumpStart Coalition for Personal Financial Literacy

CUNA is an active member of the Board of Directors for the JumpStart Coalition, an organization whose mission is to ensure that youth and young adults are equipped with the financial literacy skills that are necessary to make informed financial decisions. A nationwide survey conducted in 2004 by the JumpStart Coalition examined the knowledge of 4,074 twelfth-graders in 33 states. The survey shows that high school students are reversing declining scores

and are demonstrating increased aptitude and ability to manage financial resources such as credit cards, insurance, retirement funds and savings accounts.

On average, survey respondents answered 52.3 percent of the questions correctly—up from 50.2 percent in 2002 and 51.9 percent in 2000. However, students did not match the 1997 aptitude levels when 57 percent answered the questions correctly. The survey also shows that nearly 78 percent of the students have a savings and/or checking account with a bank, and that the 22 percent of students without any bank account scored lower (47.4 percent) than those who have a savings account (52.3 percent), a checking account (50.2 percent), and both savings and checking accounts (55.5 percent).

National Endowment for Financial Education (NEFE)

CUNA has formed a partnership with the National Endowment for Financial Education (NEFE) and the cooperative Extension Service to teach the High School Financial Planning Program® (HSFPP) to high school seniors across the nation. The HSFPP is a fully developed curriculum, consisting of six units that integrate easily into a number of existing high school courses, such as math, social studies, economics, and consumer or life science. HSFPP materials provide a basic introduction to personal financial planning, covering the impact of career and work factors on earnings potential, spending and saving money, using and managing credit effectively, protecting assets, and the time value of money. Students also are taught how to develop their own personal spending and savings plan.

CUNA underwrites the cost of printing course materials that are offered free of charge to any school requesting them, and credit union staff volunteer to either teach the course itself, or to train teachers how to teach it. CUNA CEO Dan Mica has commented:

"Recent surveys and polls show many young people today lack basic financial knowledge. That lack of knowledge directly relates to financial problems these young adults may face later in life, such as bankruptcy and difficulty in obtaining affordable credit. We want to help change that. Our partnership with NEFE and CES is a great way to put the credit union philosophy of 'people helping people' into action."

Thrive by Five: Pre-K Financial Education

To help parents teach healthy spending habits and behaviors from an early age, CUNA has developed and recently announced the "Thrive by Five: Teaching Your Preschooler about Spending and Saving," which is a program aimed at providing free resources to parents to teach basic money concepts to preschoolers. The "Thrive by Five" program was developed by CUNA with a grant from the National Credit Union Foundation and additional funds from the Ohio and Texas Credit Union foundations. A special task force of credit unions and Cooperative Extension educators developed the materials, had them reviewed by experts in child development, and tested them with three focus groups of parents and preschool children.

The "Thrive by Five" materials include eight activities parents can download at no charge to help teach their young children such concepts as waiting to spend money, how not to lose money, how money is used to buy something, that when money is spent, it's gone, and that having fun or giving gifts does not have to cost money.

National Youth Savings Challenge

CUNA has established April 17-23, 2005 as National Credit Union Youth Week, and has acknowledged a youth credit union week during April the past several years. As part of this week-long initiative that encourages youth participation in financial education throughout the year, CUNA is sponsoring the Saving Challenge for affiliated credit unions. This free Saving Challenge program helps credit unions build strong relationships with youth and their families, and encourages youth to make deposits at their credit unions. Goals of the Saving Challenge include an opportunity for youth to: open accounts; introduce themselves to the concept of setting financial goals and saving for them; visit the credit union and learn first hand they are welcome; and, empower themselves with the lifelong tool of financial education.

National Youth Involvement Board

CUNA's member credit unions created the National Youth Involvement Board (NYIB) in 1972 in order to gain grassroots input from individuals working in credit unions or CUNA's league affiliates to create a national system for the dissemination of information and resources regarding youth participation in the credit union movement. NYIB works with its participating credit unions to better prepare them to serve the projected 90 million-strong youth market. NYIB provides credit unions access to proven tools, techniques, and resources to learn the latest advancements in youth marketing, innovative ideas for educating youth about money, and a built-in network of peers with diverse experiences and valuable "best-practices."

Other Initiatives

CUNA's league affiliates and member credit unions have also worked to put student run credit unions and/or branches in schools. Involving students in the daily operation of a credit union provides them greater insight to financial safety and soundness, and provides them direct access to savings and other programs. A list of student run credit unions can be found on CUNA's website at: http://www.cuna.org/initiatives/youth/youth_inschool.html.

Though the ideal situation is to teach youth while they are young about financial best practices, CUNA and its member credit unions recognize the need and importance to offer adult financial literacy programs. Though credit unions already provide financial counseling and financial planning services to their members as a regular service, CUNA strongly supports the provision in the *Bankruptcy Abuse and Consumer Protection Act* (S. 256) that would require *mandatory* financial counseling-- ensuring individuals are fully apprised of all their options before making a decision that could prevent future access to financial services. CUNA has recognized another key component of financial literacy is outreach to the underserved and unbanked communities.

CUNA has created a Hispanic Outreach Task Force, which is committed to helping credit union attract and serve members of the Hispanic community.

Additionally, CUNA's National Credit Union Foundation, with support from the Ford Foundation, implemented a nationwide financial literacy campaign called "Plan For It. Save For It" to address the need for increased savings among low-to-moderate income families. More than 4,000 credit unions currently use the "Plan For It. Save For It" guide to increase savings among low-income credit union members. In addition, financial literacy training contributes to the greater control of one's financial future and retirement savings, and can lead to the creation of an entrepreneurial class in local communities.

Closing

CUNA and its member credit unions have long been a leading advocate and implementer of financial literacy programs for members of all ages. CUNA strongly supports the creation of the Congressional Caucus on Financial and Economic Literacy in the House of Representatives, and continues to participate with the interagency working group established by the *Fair and Accurate Credit Transactions Act*, P.L. 108-159 to help implement the national financial literacy program. CUNA appreciates the opportunity to provide comments on our financial literacy outreach efforts, and looks forward to working with the Committee to bring the greatest access and awareness of financial literacy programs to our members and the general public.

Written testimony of Jonathan Swanson
National Director
Students for Saving Social Security
www.secureourfuture.org

Committee on Financial Services
House of Representatives
Generations Working Together: Financial Literacy and Social Security Reform

April 20, 2005

Chairman Oxley, Ranking Member Frank, and members of the committee thank you for this opportunity to speak before you today. My name is Jonathan Swanson, and I am a senior at Yale University. I am the Co-Founder and National Director of Students for Saving Social Security. It is an honor to represent my generation today on an issue of such crucial importance to our future.

Students for Saving Social Security is a non-partisan, grassroots movement on campuses across the country advocating for Social Security reform through personal ownership. Started less than a month ago by myself and Patrick Wetherille (senior at Haverford College), SSSS has received a stunning response from students across the nation. Within the first week of placing our website (www.secureourfuture.org), 25 campus chapters sprung up around the nation. Today, two weeks later, there are over 75 chapters.

College students across the nation want Social Security reform and for the opportunity to save our money in personal accounts. Every day we receive more and more emails from students who want to get involved. All across the nation, students are writing editorials in their school newspapers, sponsoring debates, and holding rallies on their campuses.

We believe SSSS has received such a stunning response from students because college students know Social Security is the defining issue for our generation. And the more financially literate students become the more likely they are to support Social Security reform through personal ownership. Most students already know there is a problem. As a Third Millennium poll showed, our generation is more likely to believe that UFOs exist than to believe that we will receive our Social Security benefits. But many students do not know that in 2017 Social Security will begin to spend more than it takes in and, unless there is reform, Congress must either reduce benefits by 25% or raise our taxes by as much as 50%. Or that the Trust Fund has zero net worth, that it is only an accounting illusion, and is filled with self-referential IOUs. Or that the Supreme Court, in *Fleming v. Nestor*, ruled that we have no legal claim to Social Security benefits, that when we retire Congress can give us nothing, and we can do nothing about it. Or that Social Security is 70 years old, that it has been tinkered with for decades, and that payroll taxes have already been raised 40 times. Support for personal accounts by my generation is already very high; when students are educated about these basic facts, support for personal accounts is simply overwhelming.

As college students, Social Security concerns us not only because it imperils our future but because it affects us right now. Our jobs and salaries are on the line. One out of every eight

dollars from our very first paychecks is going into a broken system that may not be there for us. Without personal accounts, we may not get that money back. It's no wonder the late Senator Daniel Patrick Moynihan (D-NY) derided Social Security as "outright thievery" from our generation.

As young Americans we want to care for our parents and grandparents as they retire, but we also want the opportunity to save for our own future through personal accounts. My grandfather, who was raised by poor immigrant parents, became a small-town optometrist who paid Social Security taxes twice – once for his small business and once for himself. Working until he was 70, he payed into Social Security all along the way. But since he worked until he died, he never received a single Social Security check. He received nothing in return for his 40 years of contributions. If he would have had the option to save his money in his own personal account, he could have passed the fruit of his hard work on to his wife and children.

Social Security was a bad deal for my Grandfather, but it is even worse for me and my generation. When my Grandfather started paying into Social Security, he only paid 1 out of every 50 dollars from his paycheck into Social Security. My generation is already paying 1 out of every 8 dollars into Social Security. Some members of Congress are suggesting my generation should pay even more.

As college students, we want two things in any Social Security reform. First, let us have the opportunity to save our own money in personal accounts. Freedom and choice are fundamental American values, and we deserve to choose how our money is saved. This is not a radical request – we simply want the opportunity to save our own money. Don't force us to invest – but don't deny us the opportunity either. Personal accounts will allow us to see the product of our hard work grow, making my generation eager to start working and saving for our own future.

Second, do not increase Social Security taxes right as we are about to start looking for full-time jobs. We know that increasing the payroll tax makes it more costly for businesses to hire us. As the workers with the least experience, a tighter job market will hurt us the most. Social Security taxes have been raised 40 times since my Grandfather started paying – another tax hike will hurt my generation and only pass the problem on to the next generation.

Without reform along these two principles, the Social Security system will wreck economic havoc on my generation. Just look across the Atlantic to the two largest economies in Europe: France and Germany are both saddled with the burdens of retirement systems ill suited for the rising generation. France just reported an unemployment rate over 10 percent. Germany's economy just shrank in the last quarter. If Social Security is not reformed, only a few decades separate my generation from Europe's youth today.

But declining employment and salaries and an anemic economy need not be the fate of our generation. Genuine reform of Social Security, by curbing the growth of promised benefits and the introduction of personal accounts, will increase national savings by billions of dollars each year, spurring significant increases in national investment, productivity, wages, and jobs. Harvard economist Martin Feldstein estimates that Social Security reform would add \$10-\$20

trillion to our economy: this would create at least a million new jobs for my generation as we enter the workforce and increase our incomes by \$5,000 for a family of four.

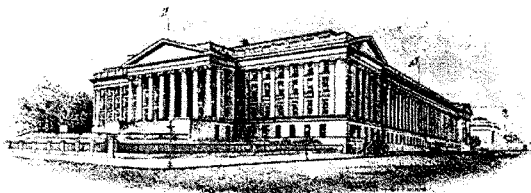
Personal accounts also advance many of the deepest values of my generation. First, personal accounts will be an unprecedented step towards equality. The wealthy in America will always find ways to save for their future – personal accounts will give the young and the working poor our first real opportunity to save for our future. Second, personal accounts give us the freedom of choice. Without personal accounts, we are denied the very freedom of how to save our own money. And finally, personal accounts permanently fix Social Security. Our generation does not want to carry the burden of an unreformed Social Security system, and we do not want to pass the problem on to our children either. Let's fix the system for good.

For these reasons Social Security is not a partisan issue for my generation. College students may be divided over some of the President's policies, but we are not divided on Social Security reform. We receive emails and calls every day from students saying "I voted for Kerry because of Iraq, but I support personal accounts because I want the opportunity to save for my future" or "I dislike the President's stance on gay marriage but I realize something must be done about Social Security." Students are united behind Social Security reform through personal ownership.

Representatives in Congress should know that this entire generation of young voters will be politically molded by the issue of Social Security reform. We ask that you give us the freedom of choice to save our money in personal accounts, not another tax hike. Giving us the opportunity to save for our own future through personal accounts will be a wonderful gift from older Americans to my generation and would, as President Clinton said, renew "the ties that bind us across the generations."¹ Restore my generation's faith in Social Security. Secure our future by giving us the opportunity our parents and grandparents never had to save through personal accounts.

Thank you for listening.

¹ ADDRESS BY THE PRESIDENT TO A NATIONAL FORUM ON SOCIAL SECURITY -- April 7, 1998



**DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS**

Embargoed Until 10 a.m. EST
April 20, 2005

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**Testimony of
Deputy Assistant Secretary of the Treasury Dan Iannicola, Jr.
submitted to the
United States House Committee on Financial Services**

Introduction

Good morning Chairman Oxley, Ranking Member Frank and members of the Committee. I appreciate the opportunity to provide an update of the progress that has been made by the Financial Literacy and Education Commission and talk about how the current discussion on Social Security has inspired people to begin to think about retirement planning.

Background on the Financial Literacy and Education Commission

The Financial Literacy and Education Improvement Act, Title V of the Fair and Accurate Credit Transactions Act of 2003, the "FACT Act," established the Financial Literacy and Education Commission. The Commission was created to improve financial literacy and education of persons in the United States. The FACT Act named the Secretary of the Treasury head of the Commission and mandates the composition of the Commission to include the heads of 20 federal departments, agencies and commissions. The Commission members are the heads of the following agencies:

Department of the Treasury
Office of the Comptroller of the Currency
Office of Thrift Supervision
Federal Reserve Board of Governors
Federal Deposit Insurance Corporation
National Credit Union Administration
Securities and Exchange Commission
Department of Education
Department of Agriculture
Department of Defense
Department of Health and Human Services
Department of Housing and Urban Development
Department of Labor

Department of Veterans Affairs
 Federal Trade Commission
 General Services Administration
 Small Business Administration
 Social Security Administration
 Commodity Futures Trading Commission
 Office of Personnel Management

Financial Literacy and Education Commission Progress

The Commission has been mandated by Title V of the FACT Act to coordinate the federal effort on financial education. In addition to holding regular public meetings, the FACT Act required the Commission to create a federal government website and toll free hotline number, to develop a National Strategy for Financial Literacy and to mount a multi-media public service announcement campaign.

The Commission has held regular public meetings since January of 2004 and has taken important steps to accomplish some of these mandated deliverables.

Public Meetings

The FACT Act requires the Commission to hold regular public meetings every four months. The Commission has met this requirement and held its Fourth Public Meeting on January 13, 2005. The Commission will hold its Fifth Public Meeting on May 25, 2005 at the Department of the Treasury. In addition to coordinating the federal effort on financial education, the Commission also uses the meetings to learn about best practices in financial education. The Commission has heard from 12 different model programs during the first four meetings. Both Senator Daniel Akaka and Representative Judy Biggert have each participated in one of these meetings by delivering remarks to the Commission.

Deliverables

Website and Toll-Free Hotline

The second Commission achievement is the establishment of a federal government website and toll free hotline number. In October of 2004, the Commission successfully launched the MyMoney.gov website and the 1-888-MyMoney toll free hotline, both of which are available in English and Spanish. The content available through the MyMoney resources provides information on a wide range of financial topics including how to plan for retirement, manage credit, save for college and avoid consumer fraud. In the first six months of operation, MyMoney.gov has recorded more than 140,000 hits in English and more than 5,200 hits in Spanish. Through both website and hotline distribution, more than 350,000 publications in English and 6,000 publications in Spanish have been disseminated.

National Strategy

The Commission is also in the process of developing the National Strategy to promote basic financial literacy and education among all Americans. In drafting the National Strategy, the Commission has sought, collected and analyzed input from all entities (individuals, state and local government, educational and academic, private, nonprofit and public institutions) suggested in Section 514 of Title V.

To help develop the Strategy, the Commission published a Federal Register Notice (FR Doc. 04-19527) in August of 2004 which requested public comment. The comment period ran from August 26, 2004 to October 31, 2004.

During this two-month time frame, the Commission received 150 comments. The Commission reviewed all of the comments and divided all of the comment providers into six sectors. These six sectors were Academic and Educational; State and Local Government Institutions; Individuals; Non-Profit Organizations; Lending Institutions; and Other Commercial Organizations.

To gather additional information from the respondents, the Commission held a series of six public information meetings, categorized by sector, known as "Sector Meetings." All of the respondents to the Federal Register Notice received a written invitation from the Commission to attend an assigned sector-specific meeting and were encouraged to attend in-person. If respondents could not attend in-person but still wanted to participate, the Commission allowed them to join the meeting via telephone conference. Each sector meeting was moderated by two to three members of the Commission and provided a forum for in-depth discussions about what should be addressed in the National Strategy.

The Commission held the Lending Institutions Sector Meeting on March 14, 2005 in the United States Capitol. The meeting consisted of a morning and an afternoon session. Senator Daniel Akaka and Representatives Judy Biggert and David Dreier each participated in either one or both of these sessions, and I would like to again thank them for their participation at the meeting, and for their commitment to the Commission.

The Commission is currently in the final stages of developing the Strategy. The Commission is mandated to submit the National Strategy to Congress by June 3, 2005, and will meet this statutory obligation.

Public Service Announcement Campaign

The FACT Act also requires the Commission to produce a multi-media public service announcement campaign. Part of the Strategy will address the development and implementation of campaign. The public service announcement campaign will help advance the goals of the commission and the National Strategy.

Social Security

As the Commission continues to develop and deliver effective financial education resources and strategies to the American public, a critical financial education issue today is the future of Social Security. I am pleased that the current discussion on Social Security has raised awareness on the issue of retirement security and the need to plan for the future. Individuals across the country are engaging in discussions about Social Security and retirement planning. The Commission will continue to provide federal education resources for all individuals who are trying to meet savings goals for retirement.

Over the last several weeks – President Bush, Vice President Cheney, Secretary Snow and dozens of Administration officials, including me, have traveled throughout the country to discuss the President's plan to strengthen Social Security. The dialogue that the President called for in the State of the Union is well underway and Social Security has been elevated to the top of the national agenda.

Social Security is safe for today's seniors and for those nearing retirement – but it is in danger for our younger workers. In 2008, baby boomers will begin to retire, by 2017, the government will begin to pay out more in Social Security benefits than it collects in payroll taxes, and by 2041 – when younger workers begin to retire – the system will be bankrupt.

As we fix Social Security, we must make it a better deal for younger workers by allowing them to put part of their payroll taxes in personal retirement accounts. Personal accounts would be entirely voluntary. The accounts would offer younger workers the opportunity to receive higher benefits than the current system – and build a nest-egg that the government cannot take away. Put another way, personal retirement accounts give each young worker a chance to own a piece of his or her future.

The President has laid out principles to guide Social Security reform and welcomes all ideas that meet these principles. He has pledged to work in good faith with Congress on this issue. We are making real progress. More and more people understand the real problems facing Social Security and the need to take action to strengthen the system for future generations.

Conclusion

It has been my pleasure to provide you with an overview of the Commission and its ongoing efforts to enhance financial literacy in America. In addition, I am pleased that I had the opportunity to discuss Social Security and how the current national dialogue on the subject has sparked increased interest in retirement planning and financial education. I thank you for your support of the Commission and look forward to discussing future developments in financial education with you. I am available to answer any additional questions that you may have.